

MUST GOVERNMENT OWNED ENTERPRISES BE LESS EFFICIENT THAN PRIVATE ONES ?

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ABSTRACT

This paper is based on direct observation of privately and government owned enterprises in Argentina, Italy, Poland, U.S.A. and Yugoslavia.

A causal model is presented which is found in all enterprises operating successfully and efficiently over time. The frequently observed inefficiencies in government owned companies are explored with its help. The same method suggests why certain privately owned enterprises exhibit inefficient behaviour while on occasions government owned enterprises are an example of dynamic, foresighted and efficient management.

The external pressure groups and their methods for exercising influence through government bureaucracy and other channels on company management are found to be of great importance and so is the legal structure and competitive environment in which management operates. The availability of adequately trained managers is another key element.

Several general recommendations are formulated for policies that will ensure efficiency in both government and privately owned corporations.

INTRODUCTION.

Efficient operation of enterprises over time in production and services is essential if society's resources are to be used to the best advantage. Observation of enterprises under very different circumstances suggests that usually there are important opportunities for improvement in their efficiency.

This author has never found yet an enterprise which after a more or less profound scrutiny would not show important opportunities for improvement in its overall efficiency. This is true for enterprises dedicated to textile production, heavy machinery, automobiles electric appliances, commodities or specialities in the chemical industry, transportation, teaching or R&D activities. The observations refer to large private

publicly owned corporations, family owned businesses, cooperatives and government owned companies; located in Argentina, several West European countries, Poland and U.S.A.

Careful observation of enterprises differing greatly in size, located in various parts of the world, operating in similar and unlike businesses, under heterogeneous social systems and under private, government, mixed and cooperative ownership suggests that their relative efficiency is determined primarily by a general pattern of cause effect relationships.

The long term success or its lack in the operations of an enterprise can usually be traced to a limited number of key factors. Once the system causing the observed behaviour is understood and the requirements for the desired behaviour are determined it appears much easier to proceed with modifications of the situation on hand.

This paper describes the general system of causes and effects that has been observed under all circumstances.

The system here presented is proposed as a guide in the analysis of the effects on efficiency of general macro and micro economic policies, of social policies bearing on development of professional managerial and technical skills, of legal measures regulating enterprises' activities, particularly of those bearing on access to markets, sources of management and technical personnel, capital technology, energy and raw materials

It is also hoped that the systematic knowledge about existing interactions will be helpful to board members and top management in evolving the kind of company culture, structure and behaviour best suited to each situation.

This paper is organized in three parts. Elements that interact determining efficiency of enterprises are discussed in the first part. Here attention is focused on the nature of each element and on some key interactions among these elements. Suggestions for public policies bearing on efficiency of government enterprises are presented in the second part. To a considerable extent these suggestions are also applicable to privately owned enterprises, the more so if they are highly dependent on government support for success. Examples of management strategies for altering existing situations are described in the third part.

KEY ELEMENTS OF THE SYSTEM THAT DETERMINE COMPANY EFFICIENCY.

The various elements that determine company efficiency tend to be present in all situations though their importance and contents may vary.

The elements included in the system, schematically illustrated in Fig. 1, are: external pressure groups, relative company dependence on government as compared with its dependence on competitive success in the markets, legal system and structure of the enterprise, susceptibility to external pressures, sources of management and of other professional skills, selection process for management and other technical positions, company mission and culture and the consequent motivation systems, business area dynamics, external pressure groups and their value systems, competitive advantage or lack of it resulting from operating in a given environment or from technological position, communications strategy, successful adaptation to market needs and overall efficiency.

Interactions among these elements are discussed and attention is focused on how each affects the overall efficiency of the enterprise.

The specific contents of some of the above elements tend to differ systematically between government owned and privately owned enterprises. For example the influence of external politically oriented pressure groups is more frequent in government owned enterprises and usually has negative effects on their overall efficiency.

On close analysis, however, it will be shown that government owned enterprises can be efficient over time provided they are shielded from interference by external pressure groups which tend to push them towards goals other than overall efficiency.

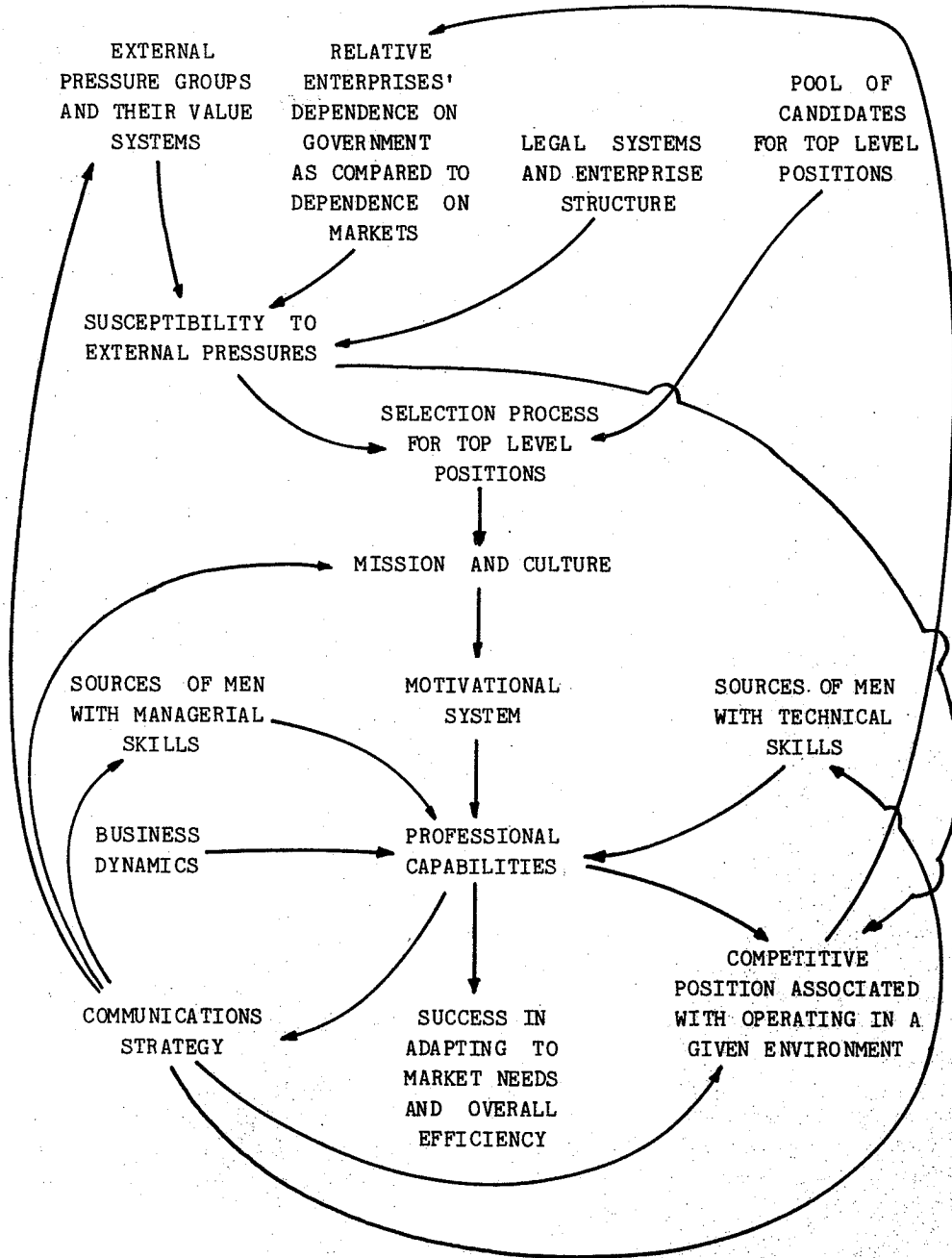
Efficient government owned enterprises are rare indeed, but they are sufficient to support the point made here that if we understand the system that causes them to operate efficiently and if we are willing to act on our understanding they could become the rule rather than the exception.

Although a detailed analysis of most of the elements explicitly shown in Fig. 1 would probably require at least as much space as this entire paper allows, an attempt is made to describe them briefly below.

Pressure Groups and their Value Systems.

External pressure groups are present in all societies. Their shapes, goals value systems and methods of exercising influence vary greatly from one society to another and even in the same society they undergo profound transformations over time.

Figure 1. Schematic representation of key interactions bearing on overall company efficiency.



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For example in large government owned enterprises in Argentina during the period of rule by the military government the following pressure groups could easily be identified as bearing on company operations:

- The military establishment motivated to achieve objectives of patriotic grandeur on national scale while the local military governors pushed for provincial equivalents. This implied pressures for visible investments and expansion of the infrastructure which in fact in many cases was achieved while only limited pressure was exercised to improve efficiency in the utilization of existing investments.
- The ministry of economics established its own goals determining limits and conditions on credit that could be contracted abroad.
- The church pressed in some areas for employment opportunities and for hiring of selected personnel and on occasions supported its own candidates for specific jobs.
- The internal professional and management groups pressed for satisfaction of personal and professional interests frequently employing their contacts in the external pressure groups.

Roughly at the same time in Italy equivalent companies were subject to similar pressures. The pressure groups in this case were political parties and unions pushing for politically sensitive investments and labour contract settlements, central bank defended the currency's stability, economic ministries and internal management groups pushed for a variety of goals not necessarily related to company efficiency.

In Yugoslavia the main external pressure group was the communist party which acted also on behalf of the economic authorities, of the local interests and of the internal pressure group in the companies.

The examples of external pressure groups in the three countries chosen illustrate a general situation. The specific names of these groups change perhaps from country to country and to a certain extent so do their goals and methods for exercising influence on enterprises but they exist everywhere.

This influence tends to be very important for many enterprises. It is particularly strong for those acting in areas of energy, large scale transportation, communications, arms production, education and health related products and services.

Relative Dependence of the Enterprise on Government as Compared to its Dependence on Markets.

According to the country they operate in, their legal status, financial structure and to the nature of their business some enterprises are more dependent on government for survival than others.

Let us look at the airlines to illustrate this point. Airlines operating in most countries depend on governments both for their revenues and for most of their costs when they do not depend on government also for their equity capital. It is government that assigns the routes they fly, determines tariffs they charge and approves the aircraft models they operate thus determining their revenues. Government also determines most of their costs such as fuel, largely dependent on taxes or exemptions thereof, pay scales and working conditions established in negotiations with unions according to government guidelines or imposed by government mediators. Only where deregulation has progressed as in the U.S.A. are airlines less dependent on the government and more so on the market.

Airlines are not alone in their dependence on governments. Large industrial companies are heavily influenced by governments too in the following areas: legislation and its application regarding employment regulations, pollution control, support for R&D, support for exports either directly or through policies regarding value of their currency, product specifications like safety features and consumption standards in automobiles, government contracts and frequently government supplied risk capital, low cost credit or credit guarantees. Many other areas of government regulation could be listed that are crucial to enterprises' operations.

Naturally smaller companies tend to establish themselves in businesses more free from government controls because many efforts are needed to deal with them and small companies simply cannot afford this expense.

Legal System and Structure of the Enterprise.

The legal system and structure of the enterprise may facilitate the interference by external pressure groups or it may act as an effective barrier against such pressures.

Two extreme examples illustrate the point. If an enterprise is directly run by a ministry which appoints top management and consolidates the enterprise's budget with its own while administering its cash flow, then opportunities for interference in day-to-day operations are probably greatest since ministries are generally prone to political influences of the pressure groups. On the other extreme a government owned corporation is run as an autonomous organization with its top level management

appointed for a relatively long period of time with iron clad guarantees that it will not be removed if the company operates efficiently. In this case there are fewer opportunities for interference by external pressure groups. If in addition the rules under which the second company operates in the market place, regarding for example its access to technology, to financial resources and to human resources are clear and similar to those under which the rest of the enterprises operate the opportunities for external interference could be very limited indeed in spite of its ownership by government.

In many countries the governing parties and/or the unions have their representatives on the board or on the various management committees. Under these circumstances the influence of the external pressure groups thus represented is to be expected. If this causes interference in efficient operations there is a need for rules that will allow influence to be exercised within clear limits that do not unduly affect efficiency.

Potential for External Pressures.

The potential for external pressures increases as the enterprise's survival and growth depend more on government's good will than on success in the market place. When prices are regulated by decree, when competition is similarly regulated, when survival of enterprises depends on the whims of government bureaucracy then conditions exist that tend to limit the efforts of management for increased efficiency while more efforts go into courting of bureaucracy and of the pressure groups that may influence it.

This behaviour is to be expected if management sees as its primary goal that of ensuring survival for the enterprises it heads. Incidentally this survival is essential to preserving management's own position. Therefore, under conditions of strong dependence on government, it is only logical that successful managers are endowed with political skills which enable them to obtain the decrees crucial for success of their enterprises. In exchange for such "favours" they are frequently forced to promote men strongly supported by members of external pressure groups, establish or intensify operations in areas politically important to their benefactors or contribute to the political fund of their parties.

As stated in the previous point the dependence on government and on external pressure groups is determined to a considerable extent by existing legislation and by each enterprise's legal status.

Pool of candidates for Top Level Positions.

The pool of candidates for top level positions is crucial for the enterprise. True, day-to-day operations are entrusted to an army of middle managers and technicians whose decisions determine the aggregate efficiency, but the general criteria they follow, their professional skills, their coordination and the general orientation of the enterprise are in the long run determined by top management.

If members of the pool of candidates have the necessary skills, vision and value systems to ensure efficient operations of the companies with which they are entrusted we have a situation favourable to efficient operations over long term, if on the other hand the pool of potential candidates is limited to men who are eligible for family connections, for their political or religious reliability or for other reasons unrelated to their ability to provide effective leadership we have a different situation.

In the first case at least this necessary, but by no means sufficient condition for efficient operations of enterprises exists. In the second case the situation is problematic from the outset.

Selection Process for Top Level Positions.

If the process of selection for top level positions gives priority to political or religious convictions or to family position we have a situation where candidates may be selected for the top jobs for the wrong reason. This is bad only if the selection process deprives the enterprises of people with the right skills to ensure efficient operations. If the selected candidates do have such skills the harm may be limited if good but not the best ones are chosen.

Mission and Culture.

In our experience the importance of this crucial element in the causal loop is seldom understood, frequently underestimated and therefore it rarely receives the necessary attention. This is striking because all the enterprises successful in the long run in the competitive struggle that we have seen had solved this point adequately. In fact it tended to be one of the key elements distinguishing the enterprises successful in the long run from the others.

The mission of an enterprise clearly though perhaps generically states what and how it shall deliver, what resources it will use and in what ways.

To direct all human efforts towards the mission's goals an organization needs an adequate culture. It is assumed here that an organization's culture means "a set of beliefs shared by a group of people that they apply to solution of problems" thus modifying Edgar H. Schein's definition (Schein 1984) to fit situations observed under new management teams or in new organizations. Clearly the "problems" referred to in the definition are those encountered in fulfilling the organization's mission.

In our experience the beliefs regarding an enterprise's relationships to its environment are extremely important for the overall efficiency with which it operates. Particularly the beliefs regarding relationship to pressure groups on the one side and to employees, clients, consumers, competitors and suppliers on the other frequently determine the crucial dimensions to which everything else is made to fit. Thus the nature of desired interpersonal relationships and the features sought in the younger managers and technicians with potential for promotion are determined to considerable extent by the way the company is seen to relate to its environment.

The lack of perception that culture and the associated value systems are essential to efficient operations in pursuit of the enterprise's mission in our experience is the most frequent cause of enterprise failures or of their unsuccessful operations. This situation frequently arises when men are promoted to the top jobs for the wrong set of reasons or if the pool of candidates does not contain men with the right set of skills.

Sources of Men (and Women) with Managerial Skills.

The availability of men with basic managerial skills is crucial to an efficient enterprise. Frequently it is necessary to decide whether to hire candidates with basic training or already trained.

In the first case, that of hiring candidates with only basic skills and nurturing internal growth - perhaps with external help -, the process of developing a team may take several years. This approach offers the opportunity for having a management team with a strongly shared set of values and trained for the specific needs the company faces. The second case, that of hiring already trained managers, provides an opportunity for "instant" coverage of management positions in the organization structure. However, the welding of individual managers into a team with shared values requires strong leadership, considerable time - although perhaps less than in the previous case - and fortunate circumstances. A mixed approach may sometimes be followed provided it is thoroughly understood by top management enacting it.

Sources of Men (and Women) with Technical Skills.

The problems here are conceptually similar to those in the case of managerial personnel except that it is essential to understand how complex and how proprietary is the technology employed. In other words one is forced to examine how much time will pass before technicians hired from various sources will be able to operate successfully within the company.

Motivational System.

The motivational system should be designed bearing in mind the enterprise's culture and in particular the way how the enterprise needs to relate to its environment in order to achieve its goals.

The motivational system also needs to consider requirements for a balanced renewal or conservation of management and technical personnel.

Fuzzy or misguided motivational systems frequently accompany lack of perception about enterprise's mission or about its need for organizational culture. They also exist when external pressure groups use their influence to secure promotions within the company, or exercise other kinds of interference disturbing to the efficient operations.

Business Dynamics.

Every business has its own characteristic dynamics which may change over time. These dynamics are imposed for example by the technological evolution, changes in the market place caused by competitors, new products, different social habits or consumption patterns, legal requirements, modifications in the patterns of supply and changing economic conditions generally.

In most cases adapting to new situations has a cost for an enterprise. Usually the quicker the adaptation must take place and the more profound it is the greater are the inefficiencies. One crucial element that slows down the process of adapting to new circumstances is the inadequacy of professional capabilities to the new situation. Frequently this inadequacy is such that the new situation is not even understood for a time much less acted on.

Professional Capabilities.

The professional capabilities of an enterprise's management and technical teams are key to success in day-to-day operations and in adapting to new circumstances.

It is probably safe to say that these professional capabilities are never quite sufficient in the view of a demanding top management, it is this awareness combined with actions to close the gap that generally ensure success.

Here again if top management selection is inadequate not only will the motivation system be inadequate to ensure the availability of needed professional managers and technicians but the actions to close the gap will be poorly planned and executed and the enterprise will not realise its potential.

The most frequent deficiency encountered in our experience is the lack of adequate management and technical teams. Not that the number of people in managerial or technical positions is always too short. this on occasions is also the case, but even though numerically the companies appear adequately staffed, on closer examination the critical skills for successful operations are seldom adequate.

Competitive Position Associated with Operating in a Given Environment.

Frequently many of the shortcomings mentioned above were not apparent when looking at profitability and costs of output because the enterprises operated in an environment which offered them substantial competitive advantage. This was the case in many Italian industries until the late 1960's when the labour cost advantage within the European common market compensated for many management shortcomings and this is still the case to-day in many industries in South-Eastern Asia, this is also the situation for enterprises operating under tightly controlled economic systems in Eastern Europe where exports are frequently subsidized, this is again the case for some Agricultural products in Argentina where land is so cheap as to allow low capital intensive technology to be economical.

Companies entering first and successfully new business areas enjoy this position of competitive advantage for a while if they are able to erect barriers protecting them for the time being from competitors.

If enterprises succeed only because of a position of competitive advantage due to operating in a given environment or to exclusive access to a technology there is a risk that should circumstances change as they did for the Italian industry in the 1970's and for some Argentine agricultural products in the last few years they may be caught unprepared and unable to adapt on short notice to the new situation.

Success in Adapting to Market Needs and Overall Efficiency.

Success in adapting to the evolving markets can be achieved by foresight and planning for its evolution and/or by quickly modifying products, costs and operations to meet unanticipated conditions.

Successful adaptation to changing market needs requires first of all flexibility within the organization. Such flexibility exists if management and technical personnel have some slack so that they are not already stretched running current operations. In addition the company culture needs to be such as to help in overcoming any organizational rigidity and facilitate introduction of needed innovation.

Overall efficiency takes into account the ability to take advantage of a broad mix of opportunities the enterprise faces.

In addition to efficient industrial and commercial operations it implies for example: ability to access cheap sources of capital, obtain at convenient costs access to adequate technology, offer products within successfully formulated product-market strategy, apply correctly the internationalization strategy to technology, markets, financial resources, production facilities and management.

Some of the above actions can also be effective stop-gap measures taken occasionally by individual managers but overall efficiency over the period of several years implies the availability of adequate professional capabilities within the enterprise to take systematically advantage of the various opportunities as they appear.

Communications Strategy.

The communications strategy represents a key element at the disposal of management for:

- influencing external pressure groups and government,
- maintaining the right relationship with clients, consumers, competitors, suppliers and investors,
- adapting the culture to the evolving needs.

SOME RECOMMENDATIONS FOR PUBLIC POLICIES REGARDING GOVERNMENT AND PRIVATELY OWNED CORPORATIONS.

Three guidelines, if followed, would go a long way towards increasing efficiency in all enterprises and particularly so in the government owned ones. They can be summed up as follows:

- Use enterprises for efficient transformation of resources into products and services.
- Insulate enterprises from interference by external pressure groups.
- Control enterprises for profitability and for other key variables.

These guidelines are discussed below in some detail.

Use Enterprise for Efficient Transformation of Resources into Products and Services.

The enterprise exists for the purpose of transforming resources into products and services. The more efficiently this is achieved the better the enterprise performs its basic role.

Satisfactory pursuit of only one goal - efficient operations over time - is difficult enough to achieve. Simultaneous pursuit of other goals will usually result in a lower level of achievement of the first one.

On occasions, however, other objectives are also assigned to enterprises, especially to those owned or controlled to a vast extent by governments. Among them two deserve special mention for their frequency. One is creating jobs and the other is providing strategically important products or services.

Creation of jobs is a sub-product of enterprises' main activity that of transforming efficiently resources into products and services desired by the markets. If creation of jobs becomes the main objective naturally the use of resources becomes inefficient. What follows is inefficient overall allocation of resources by the entire society. Governments choosing this road must know that although social problems will transitorily appear solved the problem of industrial inefficiency will loom in the future and this is much harder and more costly to correct.

The production of strategically important goods or services may be inefficient in absolute terms if comparisons are made with their production cost in other economies but they can be produced aiming for the

highest possible level of relative efficiency considering the environment in which the enterprise operates. This requires that all the conditions necessary for efficient operation of enterprises be met.

Insulate Enterprises from Interference by External Pressure Groups.

In order to operate efficiently over time any enterprise, government or privately owned, it is essential to insulate it from the interference by external pressure groups. This presents two requirements:

- an environment that will reduce the opportunities for external interference,
- selection of candidates for top management positions for their skills rather than for their political allegiance, religion or family ties.

Insulating an enterprise from external interference does not mean insulating it from outside realities. It implies here only that external pressure groups may not influence decisions bearing on efficient operations of the enterprise nor on its internal promotions system in pursuit of their own goals.

The creation of an environment that reduces opportunities for influence by external pressure groups requires an examination of the ways in which an enterprise may be subject to their influence. This occurs usually through its dependence on government officials. Thus it is essential to reduce the number of detailed government rules that govern operations requiring specific resolutions based on more or less arbitrary interpretations and decisions by government officials.

For example if everybody may import certain goods eventually paying a fixed tariff the opportunities for external interference are considerably less than if import quotas are more or less arbitrarily assigned to each enterprise or if the import duties are applied subject to officials' interpretation of a fuzzy tariff system.

Similar considerations regard access to credits. If there is one financial market for loans and everybody has access to it on approximately equal terms the situation is different from that of a two markets situation, one at soft terms that apply to companies that obtain some sort of deliberate approval by government officials, the other on much harder terms for all the others. Obviously in the two markets situation the government officials issuing the official approval for soft loans may exercise pressures on the company on their own behalf or on that of external pressure groups.

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The same considerations apply again to enterprises using other resources supplied or assigned by the government, particularly if the original decision comes up periodically for review by public authorities and if the decision criteria are not so explicit as to be automatic. This is frequently the case with most public utilities, and in transportation, communications, TV and Radio broadcasting as well as with companies exploiting public land for whatever reason.

Only crystal clear rules and procedures open to public review will help in reducing undue interference by external pressure groups in enterprises' operations.

A frequent case that is particularly wasteful to the economy occurs when government owned enterprises competing with private ones incur continuous losses covered by the treasury. This situation not only makes them open to external interference but also brings undue and sometimes fatal pressures on other companies, frequently efficient ones. This situation may be dealt with just as if the government owned companies were private. The people responsible for continuous losses must suffer the consequences and lose their jobs, the companies must redirect their focus, restructure their operations or go into liquidation.

With regard to the second requirement that of appointing the most adequate candidates for top management jobs in government owned corporations the following remark by a high official of the Yugoslav communist party comes to mind. When talking about the evolution of enterprises in his country he said: "first we appointed company managers based on their party history, this resulted in inefficient management so now we select the best candidate for the job and if he is not a party member already we offer him the opportunity to join the party later."

What is important is to have clear decision criteria regarding what makes the candidate the best for the job.

These must include the ability to understand the business and to instill a corporate culture and motivation system that will lead to development of professional and technical capabilities in the team that runs the enterprise. They must also include the ability to run an organization and to prepare it for the future.

The legal framework that will give top management an opportunity to work independently of the whims of bureaucracy is an essential element for achieving an environment free from external interference and can be helpful in getting the best candidates appointed to the top management jobs in government owned enterprises.

Control Enterprises for Profitability and for Other Key Variables.

We have already seen that top management must clearly formulate the mission the enterprise is to accomplish and must act to establish the culture and motivation systems suitable for the mission and for the environment in which the enterprise is to operate. Top management must naturally also provide profitability as a means to ensuring survival.

Whoever owns the equity must carefully examine the success as measured by profitability. Profitability, however, is only the end result of a lengthy process therefore it is necessary to watch also other variables.

First among them is definition of enterprise's mission and progress in the development of its culture in a sense coherent with the mission it is to accomplish.

The availability of professional capabilities in accordance with enterprises objectives must also be closely monitored.

Other variables to watch include market position, technology position regarding suppliers and availability of capital resources.

Progress on all these variables and perhaps on some others precedes in time eventual profits which usually come later and as a consequence. If profits exist before progress along the key dimensions is significant, they frequently are the result of operating under particular conditions that provide competitive advantages. Such conditions usually are not permanent and profitability should not be a screen covering up for insufficient progress on the other fronts.

EXAMPLES OF MANAGEMENT STRATEGIES TO IMPROVE EFFICIENCY IN GOVERNMENT OWNED ENTERPRISES.

Two cases illustrate dramatically different situations, approaches and results. Although many more could be presented they suffice to suggest that the schematic diagram presented in Figure 1 is valid under vastly differing circumstances.

The following situation sums up and slightly disguises the essential aspects of a real case which we have observed at close range and which evolved successfully.

A large government owned and operated utility, within the structure of a ministry, for years operated power generation and distribution. As external pressure groups changed internal pressure groups based on high middle management learned to establish contacts with them, these they used

for personal benefit rather than for getting the company to operate efficiently. Several top management groups unsuccessfully tried to establish a more professional approach to managing the enterprise only to be interrupted either by changes in the external political pressure groups due to changes in general political situation of the country or by actions of some segments of these external pressure groups that responded to requests from higher middle management.

At a certain point a capable new top management was selected, possibly for the wrong reason, as the selection criteria were based essentially on public image and on political affiliation of the candidates and not on management skills needed for this situation. Once nominated this group found itself subject to the same kind of external interference combined with internal resistance that prevailed previously.

A quick appraisal of the problem led to the design of a causal loop very similar to the one illustrated in Figure 1. An analysis of available options led to the following five step plan that proved rather successful:

- 1.- The enterprise was to be transformed into an independent company and top management's term was to be 5 years during which period it should not be removed except under grave circumstances. Naturally this term was to be renewable.
- 2 - The mission for the enterprise was formulated.
- 3.- A communications strategy was carefully laid out aiming at the external pressure groups and government officials in order to show them how the top management's program met their objectives.
- 4.- A value system and a motivational system were designed in such a way as to ensure support for the enterprise's mission.
- 5 - Actions were planned over time so as to avoid simultaneous confrontations with the entire internal higher middle management and to ensure that when such confrontations would arise there would be a solid support for top management by external pressure groups.

Attention was paid to promoting men with the right value systems to key positions without initially upsetting any members of the internal "establishment". Only when key positions were to be solidly secured the old lords of high middle management were to be dislodged.

Another case which we have also observed relates to heavy industry. It enjoyed an initial success only to turn into a major failure later.

Poor management selected for reasons of political loyalty and imposed by external political pressure groups led to strong labour unrest which in the end caused a drastic change in the pressure groups themselves. A new minister took over and appointed a new man to straighten out the industry and to remove the inefficiencies from the system.

In this case the new management looked to new technology for relief. This allowed a complete restructuring of the industry introducing the concept of materials flow where previously workers moved around the objects being built, working conditions were improved as most operations were transferred from outdoors into sheltered areas.

Initially the new technology allowed a substantial increase in efficiency and a reduction in delivery time. This led to saturation of the works and to a more bearable situation in general as workers' compensation improved.

No attempt was made to introduce values and motivations acceptable to the employees who worked under a system they definitely considered as imposed upon them. Middle management up to a rather high level felt very much the same.

The situation remained in an unstable equilibrium with production quotas gradually being increased through external pressures without involvement of the employees. At a given point when orders began to slacken violence erupted again.

In retrospect it may be concluded that the initial success due to improvement in working conditions, output and compensation met the requirements of external pressure groups. Political and government officials were satisfied because peace and production has been re-established and an increase in output was achieved. Labour was satisfied because of the better working conditions and compensation.

These improvements, however, were not permanent because of absence of shared value and motivational systems. This was compounded by lack of adequately trained and motivated professional management able to provide leadership under changing circumstances. Conditions were ripe for a crisis as soon as external difficulties appeared.

Unfortunately the approach illustrated in the second case tends to be only too frequently applied by saviours of both government owned and privately owned enterprises.

CONCLUSIONS

Improvements to enterprises' performance are sought from incorporating new technology into products and processes, new products are offered to existing markets or access is gained to new markets, cheaper and more convenient capital sources are located and used. Through all these means and perhaps with the help of some manipulation of the legislation a transitory position of competitive advantage is established. The enterprise appears more profitable and perhaps through an improving compensation level even a measure of good will is generated among its personnel. All this by conventional standards implies that the top management is doing a great job.

On deeper analysis however, there may room for farther substantial improvement in efficiency and the very success based on the above described actions could be short-lived.

Unless the mission is clearly formulated for an enterprise, and a culture suitable for support of this mission is established, coordinated motivational systems are enacted and management and professional capabilities are developed to deal with the changes in the environment, crises due to inefficiency are very likely to lie ahead.

Two conclusions may be drawn:

- 1 - Government owned enterprises need not be inefficient provided some basic rules are followed in setting them up and in running them.
- 2 - There is ample room for improvement of efficiency in all enterprises independently of their ownership structure. Examination of the chain of causes and effects presented in Fig. 1 is helpful in locating the specific opportunities for improvement.

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