

## Failure of Public Sector Enterprises: A Case Study of SAARC Countries

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### **Abstract**

*Public sector enterprises (PSEs) are the state owned enterprises, controlled and supported financially by the government. PSEs are one of the most important sectors of the nation which earn for the government and provide goods and services to both nation and its nationals. But now PSEs are bleeding profusely. Many reasons are provided for that poor condition of PSEs, bad governance being one of them, it is hypothesized that bad governance is the main cause of failure of PSEs. To empirically prove that governance has effect at the performance of PSEs panel for six South Asian countries is used. Results are regressed by simple panel least square and it is found that governance effects the performance of PSEs, so to better the performance of PSEs it is important to enhance the rank of Governance in the country.*

**Keywords:** Public Sector Enterprises (PSEs), Governance, SAARC Region

### **Introduction**

Public sector enterprises (PSEs) are the enterprises which are controlled and supported, financially, by the government. "A Public Enterprise" is defined as government organization established under public or private law as a legal personality which is sovereign or semi-sovereign and produces/ provides goods and services on a full or partial self-financing basis, and in which the government or a public body/agency participates by way of having shares or representation in its decision-making structure (John-Mary (2005)).<sup>4</sup> PSEs are assumed to produce goods and services by and for government and their nationals. Public enterprise is believed to provide a structural arrangement that escape the controls of the Civil Service as well as to a certain extent Public scrutiny and therefore becoming a breeding ground for corrupt tendencies (Kauzya (2005)). PSEs help to overcome the problem of market deficit and capital short fall, as they are considered to be an important source of capital formation, promoting economic growth and descending mass unemployment (Khan (2005)). Public enterprises were to earn for government and for its nationals, to support and strengthen the economy of the country. The basis of the establishment of PSEs are; to develop economically lagging regions, to get special services that are not in the excess of expertise of government, to protect industries in specific nation interest from market influences and for political interests (Rondinelli (2005)). PSEs provide electricity, gas and water, have significant role in provision of transport and communication facilities, more over are responsible for value addition in agriculture sector, commerce and construction (Nellis (1994)). PSEs contribute in building country's infrastructure, in the production and the achievement of self sufficiency in basic goods and services, in increasing employment level, in reducing poverty, in enhancing national economic development and in government revenue<sup>5</sup>. Through generating large

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<sup>4</sup> Public Enterprises: Unresolved Challenges and New Opportunities Publication based on the Expert Group Meeting on Re-inventing Public Enterprise and their Management 27-28 October 2005 New York

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surpluses and enjoying tremendous economies of scale PSEs had contributed significantly in the development programs of the country (Ittyerah (2010)). Nellis J. R. (1994) highlighted that PSEs are capital intensive in production but they are a major source of employment in sub Saharan countries. Similarly facts show that in Bhutan PSEs provide employment to approximately 10,097 people<sup>6</sup>, in India to 1.444 million people<sup>7</sup> and 16,000 in Srilanka<sup>8</sup>.

With the passage of time these enterprises have been proved not only inefficient but have been poorly managed and bleeding profusely. Instead of earning for nation they are a burden at nation and proving white elephants. This is evident from the fact that an amount of approximately Rs. 400 billion<sup>9</sup> is allocated to public enterprises sovereign for their continuous loss in Pakistan in the year 2010-2011. The total burden due to losses being incurred by state owned enterprises including PIA, Pakistan Steel Mills and PEPCO on the country's budget is Rs. 235 billion. Government of Pakistan paid Rs.245 billion from the budget 2009-10<sup>10</sup>. The operational losses for the year 2010 of PSEs to Pakistan are about 1.5% of GDP. Similarly in India, Srilanka, Bangladesh and Bhutan, PSEs are incurring great loss. Bangladesh and Bhutan are providing subsidies or grants in billions to run PSEs. Only top ten loss making entities made net loss of RS. 20076.97 Crore, in India during 2010-11.

Now the questions are; why are the public sector enterprises bleeding? Why are public enterprises incurring that much loss? What are the factors due to which public enterprises not earning for nation but proving a burden to nation? The main causes of PSEs' failure are poor management, poor governance, misallocation of resources (John-Mary, 2005). Mainly bad governance is thought to be the major reason. Good governance is necessary for good performance of PSEs and is most obligatory for economic growth. Governance is the process of interface and interaction among three sets of actors that include the state, civil society and the private sector (Cheema (2005)). Good governance is essential for high investment, economic growth, reduced poverty and happy and healthy society. John- Mary (2005) argued that the general governance and the leadership environment has influenced PSEs very negatively and made their performance poor. The poor performance of PSEs is not only due to unavailability of input but the real problem was inability of the governance and leadership to nourish the PSEs to recover and perform. The most important items for the agenda of loss making entities are corporate governance and professionalization (Ittyerah (2010)). Governance and management reforms are the most appropriate to better the condition of poorly performing PSEs (Rondinelli (2005)).

## Objectives

The main objectives of the study are

- To identify the relation between performance of public enterprises and governance in selected countries of South Asia.
- To analyze whether poor governance is the cause of failure of PSEs.
- To identify the effect of every indicator of governance, individually at performance of PSEs.
- To suggest policies to improve the performance of public enterprises.
- To identify role of governance in improving performance of PSEs.

<sup>6</sup> [www.mof.gov.bt/downloads/BudgetReport2012.pdf](http://www.mof.gov.bt/downloads/BudgetReport2012.pdf)

<sup>7</sup> [http://dpe.nic.in/sites/upload\\_files/dpe/files/survey1011/survey01/Overview.pdf](http://dpe.nic.in/sites/upload_files/dpe/files/survey1011/survey01/Overview.pdf).page 17

<sup>8</sup> <http://www.treasury.gov.lk/reports/annualreport/AnnualReport2010-eng.pdf>. chap 4, page 202

<sup>9</sup> Annual Budget 2010-11, Pakistan

<sup>10</sup> Annual budget 2009-10, Pakistan

## Literature Review

Naqvi and Kemal (1991), compared the efficiency level in public and private enterprises producing similar goods of Pakistan and found that privatization is neither necessary nor sufficient. Study further observed that both private and public sector show efficiency and inefficiency. There is nothing inherently good or bad for public as well as private sector. To improve the efficiency of public sector steps should be taken other than privatization.

Shirley (1989) assessed the performance evaluation of the industrial public enterprises (IPE) of Pakistan. IPE should be rewarded for maximizing the benefits of the society, have both noncommercial goals, many enterprises performance is out of control of managers. This study suggested Pakistani Government to strengthen the internal operation of the system by hitting the targets set and bonuses awarded and to better the environment of the IPEs including the autonomy awarded to the manager and the mutual relationship of labors.

Rondinelli (2005) analyze the performance of PSEs and reviewed that PSEs were established to accelerate economic growth and development in the country. But due to bad governance, management failure, political intervention and high corruption PSEs are producing high deficits and are proved inefficient for increasing the pace of economic growth and social development. Governance and management reforms should be introduced to better the condition of PSEs. Public private partnerships, commercialization, contracting out and privatization could be optimal solution to deficit producing PSEs. Ensure that retention of professional, trained and component senior managers and skilled labor for PSEs.

John-Mary (2005) while analyzing the challenges faced by Africa showed that PSEs can register impressive performance and being used as catalyst for development and found that PSEs as a usable structure which can succeed or fail depending upon the way it is used. Low availability of input is a problem but key issue is the bad governance and poor leadership.

Nellis (1994) find that public enterprises are very important in providing water, gas, electricity, transport and communication. In sub-Saharan countries PSEs are the important source of employment and government relay at PSEs. But gradually PSEs decline their performance and output and failed to generate internally sufficient capital. Inappropriate investment, pricing policies and grossly inefficient firms were the main reason for the failure of PSEs. The study conducted, evaluated that privatization is necessary to improve the performance of public enterprises as well as to lock the gain achieved in reforming the ownership because relationship between ownership and efficiency is probabilistic in nature, secondly empirical results favor privatization and the third argument for private ownership is political and organizational in character.

Basu (2005) made analysis at reinventing PSEs and their management. Study argued that PSEs had become a drain at the national economy. Composition of boards, wrong guideline for investment, market failure, government failure, managerial failure, no institutionalizations of PSEs between government and private sector are the key issues for the failure of PSEs. To overcome these issues privatization should be introduced when it become vital, public-private co-sharing is much better option, structure and nature of PSEs should be considered. Remuneration of the management is also important for the remuneration of PSEs. Government failure leads to managerial failure, to prevent PSEs from suffering this consideration should be paid to good governance.

Bhaskar and Khan (1995) used firm level data for jute industry in Bangladesh to analyze the effect of privatization at employment and output and found that privatization has strong negative relation with employment level of white color workers by using panel data, informal interviews and ordinary least square.

Gupta and Sathye (2007) investigated that the good luck, good management or both are responsible for the turnaround of Indian railways and by using case study method found that

good management and good luck both lead to turnaround in Indian railways but good luck was the key factor for the turnaround. Moreover, market orientation and customer focus was found a plank to railway turnaround while environmental factors contributed considerably to the success of Indian railways.

A study based upon both qualitative and quantitative data explored that widespread corruption and low governance in the developing states like Pakistan is attributable to intrinsic inadequacies in the public institutional structures, which can be controlled through restructuring (Tahir and Noor, 2009). Martin Rama (Public Sector Downsizing) explained that public sector is downsizing in developing countries because of high deficits and predicted that downsizing would be a reform in developing countries.

Gopal Joshi explained why public enterprises are being privatized, and argued that privatization lead to more economic democracy, helps in achieving high economic growth and employment and privatization reduces the budgetary deficit by off loading the losses by public enterprises as early as possible. Public sector can also be restructured by creation of accountable, transparent and representative system for regulating public enterprises, independent monitoring of public enterprises by people instead of bureaucrats and politicians. Privatization leads to weak the labor unions.

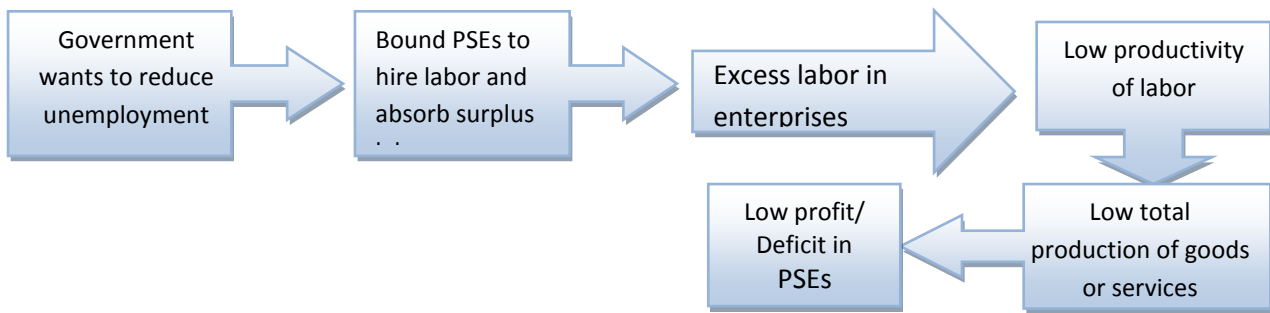
### **Theoretical Framework**

The losses of public sector enterprises in 2011 reached their peak, and performance at the lowest ebb in Pakistan's history, threatening the economic conditions of the country<sup>11</sup>. Governments have owned PEs with the intentions of using them as convenient absorber of surplus redundant labor (Rondinelli (2005)). According to the theory of privatization (Boycko 1996), public enterprises are inefficient because they have politicians as main decision making and influencing authorities. Politicians work for their self-interest, to secure their votes in future elections; they try to hold high employment in the PSEs and therefore high labor spending. This objective is achieved at the expense of the high profit and the efficiency of the PSEs. Private sector (managers) could decrease the employment spending and employment in PEs by corruption or giving bribe to politician but it also effect utility function of managers. Politicians could stop restructuring or slow it by providing subsidies to the managers. If managers had taste just like politicians then employment would not be decreased, and if managers are more profit oriented then PEs would be restructured. For PEs to be more effective the main block holders must be the private sector, whose main objective is to maximize profit as Privatization leads to decrease the political discretion problems, hence increasing efficiency of PSEs.

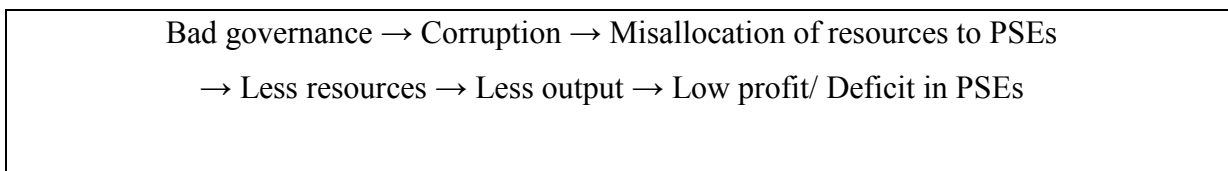
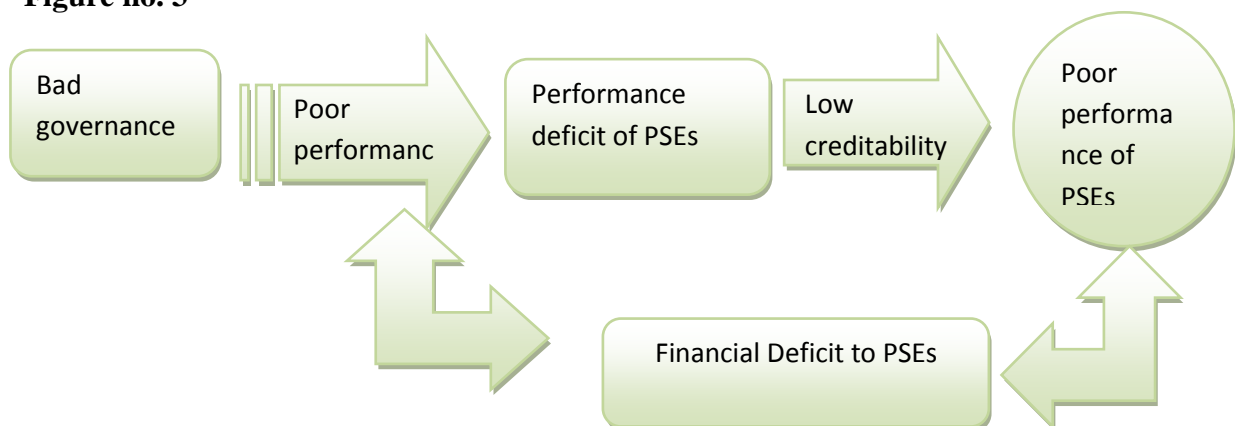
So one can say that, it is in the political interest of the leaders to increase employment level, for that purpose government bounds public enterprise to absorb surplus labor, which increase the employed labor but decrease its productivity which intends to decrease in total output of PSEs and decrease their profit.

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<sup>11</sup> [Mansoor Ahmad](http://www.thenews.com.pk/Todays-News-2-84780-Public-enterprises-become-white-elephants-with-Rs600-bn-annual-loss)(December 29, 2011). Public enterprises become white elephants with Rs600 bn annual loss: <http://www.thenews.com.pk/Todays-News-2-84780-Public-enterprises-become-white-elephants-with-Rs600-bn-annual-loss>

**Figure no. 1****Negative relation between corruption and productivity of PSEs:**

The key indicator of the bad governance is corruption, due to corruption resources are not properly allocated to PSEs, misallocation of resources decrease the productivity of PSEs and in result decrease the profit or increase the deficit of PSEs. Chetwynd, etal. (2003) argued that corruption affects governance factors; it reduces the governance capacity by weakening political institutions and public participation and leads to the lower quality in government services and infrastructure. Being indicator of bad governance

**Figure no. 2****Monopoly of governance:****Figure no. 3**

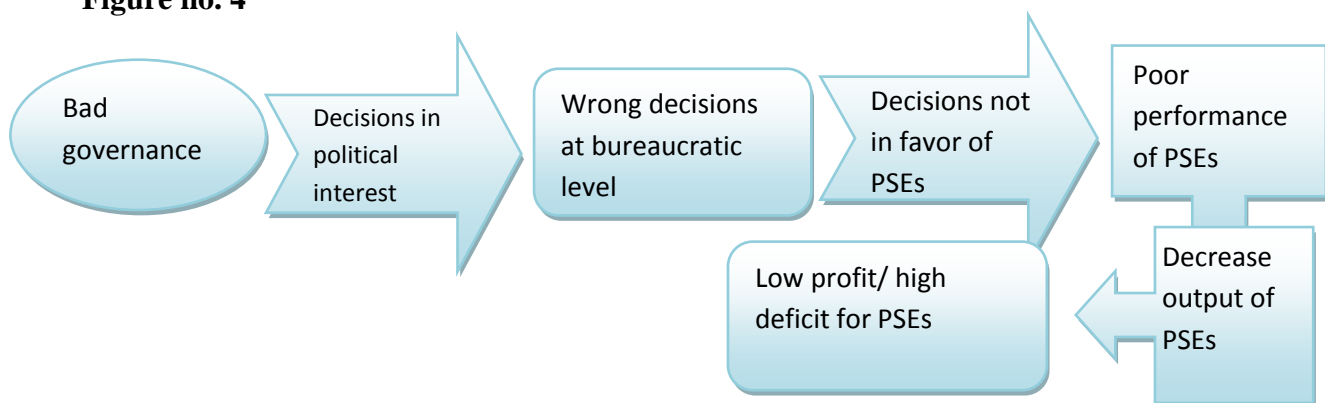
Government has monopolistic power at PSEs, so the all the positive and negative changes in the government and its policies effect PSEs. The poor performance of government gives budget deficit in country, and performance deficit of government. That performance deficit of government is reflected in the performance deficit of PSEs, which intended to decrease the creditability of PSEs, resulting in more poor performance by PSEs, low productivity and

financial deficit. That financial deficit will again give more poor performance, more decreasing the credibility of PSEs again a performance deficit and the process will continue.

### Decisions in Political Interest:

Good governance takes decisions which are in the public interest. A poor leadership would take decisions which are in their political interest. And force the bureaucrats to take wrong decisions, those wrong decisions spoil the productivity of PSEs, decrease their profit by decreasing total productivity. Many PSEs become bureaucracy plagued by inefficiency, ineffectiveness, corruption and draining resources from public sector (Rondinelli (2005)). The best example for all this is the Indian Airlines, a large enterprise in India, famous for its services. When customers complained for the poor services, managers blamed wrong decisions of bureaucrats are responsible, bureaucrats intend blamed political leaders who asked them to take those decisions. Trivedi (2005) explain the following channel as “Not me syndrome”

**Figure no. 4**



Governance is affecting the performance of PSEs by different means, corruption, less accountability, monopolistic powers of government lower regulatory quality all decrease credibility of PSEs and increase the performance deficit for it.

### Current Situation in South Asia

Public sector enterprises are one of the most important sectors in the economy. PSEs are the largest source of employment. But in South Asian countries, all the enterprises are not giving required results. According to the national budget of Bhutan (FY 11-12) important enterprises like Druk Green Power Corporation (DGPC), Welfare Corporation Company (WCC), Druk Air, Bhutan National Bank (BNB) and Bhutan Postal Corporation experienced a decline in profitability during the year. WCC experienced sharp decline (86%) in their pretax profit due to increased operating cost. BBS due to its social nature face a net loss of Nu.43,000 during the year. In the case of BNB, while its total income grew by 23 %, total expenditure increased disproportionately by Nu.309.46 m (34 %), caused by sharp increase in provisions for doubtful debts and interest expenses. Total subsidies and grants provided to PSEs by the Government of Bhutan were Nu. 321.33 millions. Druk air showed worse situation and received grants of Nu. 132.678 million. BBS received Nu. 115.34 million. Income tax holiday was provided to BDFC. Government provided total exposure of sovereign guarantee to PSEs of amount Nu. 2,911.22 million. To purchase new planes, major portion of guarantees were provided to the Druk airline amounting Nu. 1769.04 million.

According to ministry of finance Bangladesh, Net profit of PSEs in Bangladesh was Tk.4,840.85 crore in FY 2008-09 and net profits estimated for FY 2009-10 was Tk. 376.14 crore. Some significantly PSEs showed following performance in FY 2009-10.

**Table. 1**

| <b>Enterprise</b>                                     | <b>Performance</b>   |
|---|--|
| BPDB  | Net loss increased from Tk. 828.61 crore in FY 2008-09 to Tk. 1,415.57 crore in FY 2009-10 |
| BPC   | Incur loss of Tk. 2,075.26 crore in FY 2009-10   |
| BTRC  | Decrease in net profit to Tk. 2,080.9 crore from Tk.3,159.4 crore                          |
| Bangladesh Oil, Gas and Mineral Resources Corporation | Decrease in net profit to Tk. 913.01 crore from Tk.1,361.35 crore                          |
| Dhaka WASA  | Increase in net profit to Tk.86.69 crore from Tk. 1.47 crore                               |
| Chittagong Development Authority                      | Decrease in net profit to Tk.70.43 crore from Tk. 163.27 crore                             |
| Khulna Development Authority                          | Decrease in net profit to Tk.8 crore from Tk. 9.29 crore                                   |
| Bangladesh Small Industries Corporation               | Increase in net loss to Tk. 18.7 crore from Tk. 3.21.crore in FY2009-10                    |

Source: Monitoring Cell, Finance Division

## Bangladesh

Government of Bangladesh provided subsidies/grants to 12 different public entities, which were estimated at Tk. 1,226.39 crore in FY 2009-10. Bangladesh Water Development Board (BWDB) was given subsidy amounting to Tk. 690.79 crore in FY 2008-09; Bangladesh Agriculture Development Corporation was given an amount of Tk. 204.26 crore. Bangladesh Inland Water Transport Authority was given Tk.113.14 crore as subsidies, Bangladesh Small and Cottage Industries Corporation worth Tk.47.74 crore and Bangladesh Freedom Fighter Welfare Trust was given Tk. 61.16 crore in FY 2008-09. Bangladesh Jute Mills Corporations was given Cash subsidy amounting to Tk. 34.45 crore and Tk. 71.7 crore in FY2008-09 and FY 2009-10 respectively against exports of jute.

Currently reforms are introduced in Bangladesh in order to restructure PSEs for reducing overall loss of PSEs and improve their contribution in economic growth.

In Pakistan PSEs were in most poor condition, their losses peaked during 2011 and their performance was at its lowest ebb. According to the annual budget 2010-11, approximately an amount of 400 billion is allocated to PSEs and the operational losses to PSEs are about 1.5% of the GDP<sup>12</sup>. The Pakistan Railways, the Pakistan International Airlines, the Pakistan Steel Mills, the Pakistan Electric Power Company (PEPCO), the Pakistan Agricultural Storage and Services Corporation (PASSCO) and the Utility Stores Corporation (USC) are collectively loosing up Rs100 crore a day every day of the year<sup>13</sup>. According to PIA's annual report titled "We stand for national values" net losses at the PIA have gone up from Rs4.4 billion in 2005 to Rs35 billion in 2008.State bank of Pakistan states "During FY10 and FY11 alone, the government has provided funding to cover Railways losses to the extent of 0.2 percent of the GDP." Many analysts argue that privatization is the necessary solution for loss making enterprises, it is said that public enterprises should be privatized even for worth one rupee, it will save nation from the loss of 400 billion.

<sup>12</sup> Jamil Nasir(May 04,2011). Is privatization the only alternative? :

<http://www.pkarticleshub.com/2011/05/04/is-privatisation-the-only-alternative/>

<sup>13</sup> Dr. Farrukh Saleem (November 13, 2011). Rs100 crore a day : <http://www.thenews.com.pk/Todays-News-9-77208-Rs100-crore-a-day>

But PSEs are not necessarily inefficient enterprises, even in the case of Pakistan; PSEs like PSO, Pakistan Petroleum Ltd, National Bank etc are still profitable though not going excellent in term of public service delivery, and customer satisfaction. Also in India many public enterprises are performing very well they are producing high profits like Oil and Natural Gas Corporation LTD, Bharat heavy electrical corporation, NTPC Ltd, Coal India Ltd, Oil India Ltd etc. PSEs are providing employment to 14.44 lack people in India and almost 16000 in Srilanka. The profit of profit making PSEs was 1,13,770 (Indian RS) crore in 2010-11. But many other PSEs are making loss and giving very severe condition.

List of top ten loss making entities for 2010-11 is given below:

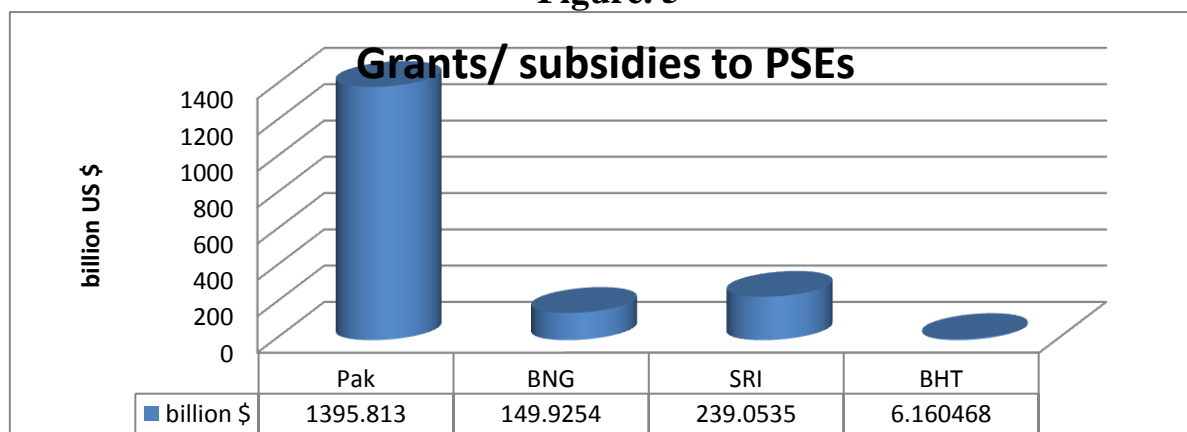
**Table. 2**

| <i>NAME OF PSE</i>                                | <i>NET LOSS</i>     | <i>%SHARE OF NET LOSS</i> |
|---|---------------------|---------------------------|
| <b>Air India Ltd</b>                              | (-) 6865.17         | 31.65                     |
| <b>Bharat Sanchar Nigam Ltd</b>                   | (-) 6384.26         | 29.43                     |
| <b>Mahanagar Telephone Nigam Ltd</b>              | (-) 2801.91         | 12.92                     |
| <b>Hindustan photo film manufacturing Co. Ltd</b> | (-) 1156.65         | 5.33                      |
| <b>Indian drugs and pharmaceuticals Ltd</b>       | (-) 621.83          | 2.87                      |
| <b>Hindustan cables Ltd</b>                       | (-) 607.39          | 2.80                      |
| <b>Fertilizer corporation of India Ltd</b>        | (-) 508.51          | 2.34                      |
| <b>Air India charters Ltd</b>                     | (-) 391.22          | 1.80                      |
| <b>Hindustan Fertilizer Ltd</b>                   | (-) 382.28          | 1.76                      |
| <b>ITI Ltd</b>                                    | (-) 357.75          | 1.65                      |
| <b>Total</b>                                      | <b>(-) 20076.97</b> | <b>92.55</b>              |

Source: Public Enterprises Survey, India 2010-2011

PSEs are incurring loss in almost all the countries of South Asia. So one can conclude the PSEs are not performing well in South Asia. Many countries in South Asia are giving special grants or subsidies to PSEs in order to support them.

**Figure. 5**

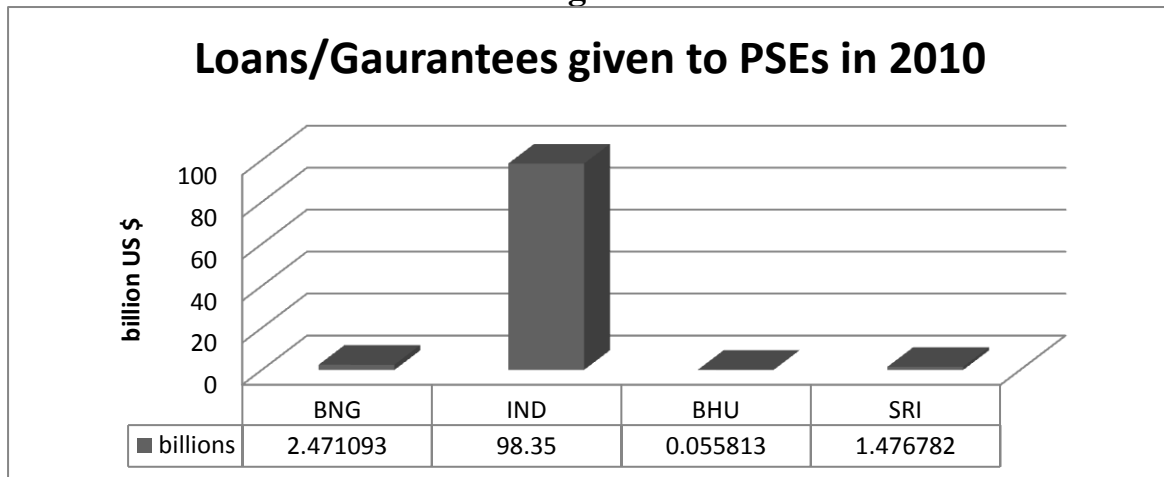


Source: World Development Indicator 2011

Similarly many countries used to give loans to PSEs, or pay them guarantees to overcome the losses and better their performance.



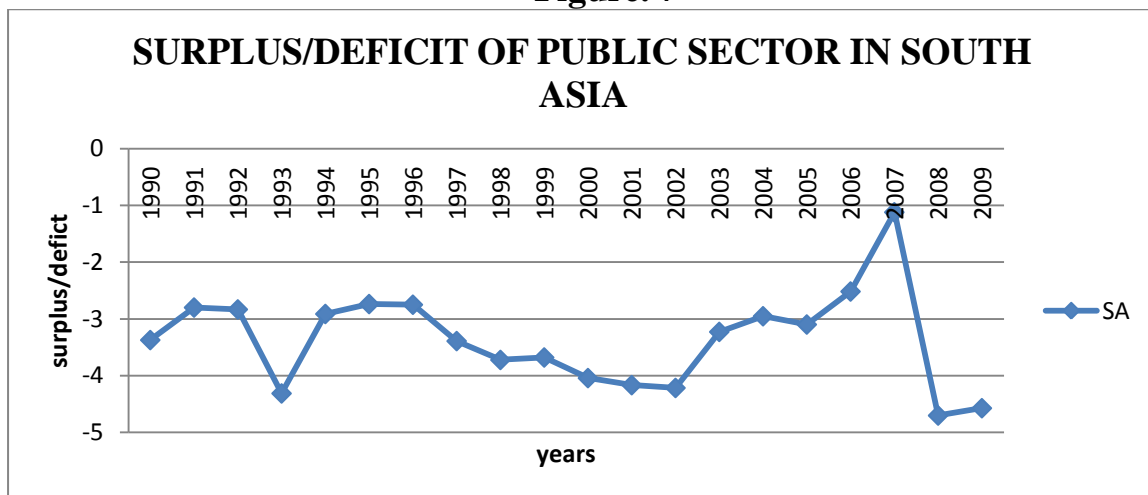
**Figure. 6**



Source: World Development Indicator 2011

South Asia is incurring continuous deficit in public sector from 1990 to onwards, in 2007 deficit was minimum one.

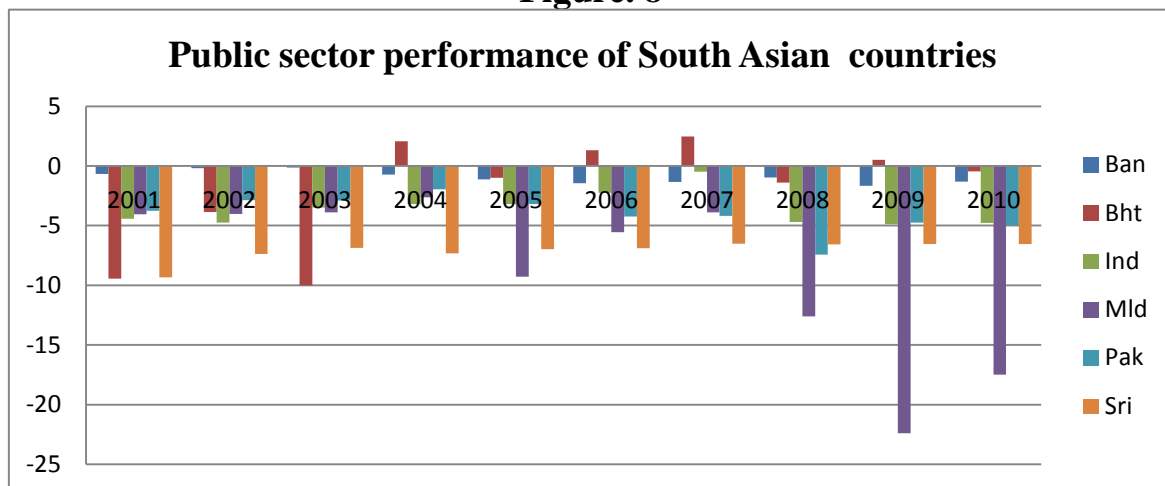
**Figure. 7**



Source: World Development Indicator 2011

While analyzing countries in South Asia, Bhutan is the only country incurring profit in some years, all others are making deficit in public sector.

**Figure. 8**



Source: World Development Indicator 2011

## Data Sources and Methodology

All the researches at PSEs give theoretical perspective, in this study it is tried to empirically prove that governance has influence at PSEs performance. Using the panel of six South Asian economies (Bangladesh, Bhutan, India, Maldives, Pakistan, and Sri Lanka), empirics are tried to find by estimating through panel least square for the time period 1996 to 2010. To represent performance of PSEs, data for cash surplus or deficit of public sector as percentage of GDP is used. For simplicity it can be interpreted as fiscal deficit of public sector. Data is used from Worldwide Governance indicator (WGI) 2011. Independent variable is the governance, generated by taking the average of all indicators of governance.

Mathematically it can be written as

$$\text{CSD} = f(\text{gov})$$

$$\text{CSD} = \beta_1 (\text{gov}) + \varepsilon_1$$

Where

$$\text{gov} = \frac{\text{VA} + \text{PSV} + \text{GE} + \text{RQ} + \text{RL} + \text{CC}}{6}$$

As

CSD = Cash Surplus or Deficit of Public Sector as percentage of GDP

VA = Voice and Accountability

PSV = Political Stability and Absence of Violence

GE = Government Effectiveness

RQ = Regulatory Quality

RL = Rule of Law

CC = Control of Corruption

The data regarding governance indicators has been taken from Worldwide Governance indicator (WGI) 2011.

To analyze the effect of each indicator at the performance of PSEs, dependent variable is also regressed at each indicator separately assuming effect of all other indicators and variables constant. In this regard following equations were developed.

$$\text{CSD} = \beta_2 (\text{VA}) + \varepsilon_2$$

$$\text{CSD} = \beta_3 (\text{PSV}) + \varepsilon_3$$

$$\text{CSD} = \beta_4 (\text{GE}) + \varepsilon_4$$

$$\text{CSD} = \beta_5 (\text{RQ}) + \varepsilon_5$$

$$\text{CSD} = \beta_6 (\text{RL}) + \varepsilon_6$$

$$\text{CSD} = \beta_7 (\text{CC}) + \varepsilon_7$$

## Results

Following table shows result findings

**Table. 3**

| Model  | Coefficient<br>t stat.<br>(std.error)* | Coefficient<br>t stat.<br>(std.error) | Coefficient<br>t stat.<br>(std.error) | Coefficient<br>t stat.<br>(std.error) | Coefficient<br>t stat.<br>(std.error) | Coefficient<br>t stat.<br>(std.error) | Coefficient<br>t stat.<br>(std.error) |
|--|--|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| <b>Governance</b>  | -7.232179<br>-7.685176<br>(0.941056)   |                                       |                                       |                                       |                                       |                                       |                                       |
| <b>Voice and<br/>Accountability<br/>(taking all<br/>other constant)</b>                            |  | -6.949833<br>-7.468659<br>(0.930533)  |                                       |                                       |                                       |                                       |                                       |
| <b>Political<br/>Stability and<br/>Absence of<br/>Violence<br/>(taking all<br/>other constant)</b> |  |                                       | -5.711054<br>-6.307474<br>(0.905442)  |                                       |                                       |                                       |                                       |
| <b>Government<br/>Effectiveness<br/>(taking all<br/>other constant)</b>                            |  |                                       |                                       | -7.187894<br>-7.378246<br>(0.817105)  |                                       |                                       |                                       |
| <b>Regulatory<br/>Quality (taking<br/>all other<br/>constant)</b>                                  |  |                                       |                                       |                                       | -7.855069<br>-8.386891<br>(0.936589)  |                                       |                                       |
| <b>Rule of Law<br/>(taking all<br/>others<br/>constant)</b>  |  |                                       |                                       |                                       |                                       | -6.423561<br>-7.861362<br>(0.817105)  |                                       |
| <b>Control of<br/>Corruption<br/>(taking all<br/>other constant)</b>                               |  |                                       |                                       |                                       |                                       |                                       | -7.729350<br>-6.505167<br>(1.188186)  |
| *standard error  |  |                                       |                                       |                                       |                                       |                                       |                                       |

## Governance

Variable governance is the average of all the six indicators of governance and it is found that good governance has negative relation with the fiscal deficit of PSEs. Results indicated that one unit increase in good governance will lead to 7.232179 units decrease in the fiscal deficit. It is the bad governance which has effect the credibility of PSEs. Accusation of governance is very right for poor performance of PSEs. Weak governance and poor leadership can never flourish PSEs. For poor performance of PSEs the most lacking ingredients are general leadership and governance (John-Mary (2005)).

In the next models it is tried to analyze that what is the effect of particular indicator of governance, remaining all other indicators constant in this context we find that all the indicators are negatively proportional to fiscal deficit of public sector

## Voice and Accountability

Accountability is very important in any sector. Increased accountability in PSEs will improve the performance of PSEs. Trivedi (2005) stated, "Accountability and efficiency are the two

faces of same coin.” Results of the study conducted show that voice and accountability is very effective for the performance of PSEs. Voice and accountability has negative and significant relation with fiscal deficit of public sector. It is found that one unit increase in voice and accountability leads to 6.949833 units decrease in fiscal deficit of public sector. According to the study of Trivedi there are two main reasons for what there is low accountability in the PSEs, one there are unclear expectations from PSEs; every PSE has multiple goals and principals. So the managers face diverse problems. Second is “Not me syndrome” that is no one is ready to take the responsibility for what had happened. Increased voice and accountability can improve the situation. If PSEs would be accountable for everything, they could be in very better situation today.

### **Political Stability and Absence of Violence**

Political stability and absence of violence prove significant in influencing at PSEs, results show that one unit increase in political stability and absence of violence will lead to 5.711054 units decrease in fiscal deficit. High Political stability will decrease uncertainty and will increase saving in the state. Right directional investment will increase the profit of PSEs, as Basu (2005) highlighted that wrong guideline for investment is the key factor for poor performance of PSEs.

### **Government Effectiveness**

Government effectiveness proved effective and significant in reducing fiscal deficit of public sector, results showed that one unit increase in government effectiveness decrease fiscal deficit by 7.187894 units. As government failures limits the role of PSEs in the economy. Government failures lead to management deficit because of which PSEs can suffer from technological short comings, which would worsen their performance. Also to overcome these short comes technology could be imported through foreign aid or soft loans, can be filled by low and second grade machinery which would make the performance of PSEs worst (Khan (2005)). As mentioned in theoretical backgrounds indicate that government has monopolist power at PSEs, so all the rules, policies and changes in them affect PSEs. High government effectiveness will prevent performance deficit of PSEs, which could better their creditability so as their production and profit.

### **Regulatory Quality**

Regulatory quality proved significant and most effective in reducing fiscal deficit, as indicated by the results one unit increase in regulatory quality will decrease fiscal deficit by 7.855069 units. It is found that high regulation leads to significant decrease in the fiscal deficit of public sector. Government should provide regulatory environment for both public and private sector, it should be clear that PSEs will never contribute in the development of state until unless regulator quality is provided.

### **Rule of Law**

Rule of law also has effect at public enterprises performance, while holding all others constant, results indicated that one unit increase in rule of law will decrease 6.423561 units of fiscal deficit of public sector.

### **Control of Corruption**

Control of corruption is very important indicator of governance. High control of corruption improves the allocation and quality of resources to PSEs, thus increasing the profit of PSEs. The results of the study showed that Control of corruption is the second most effective

indicator of governance, results highlighted that one unit increase in control of corruption will decrease fiscal deficit by 7.729350 units. It is not PSEs which are corrupted it is the authorities operating PSEs. Corruption is the factor which leads to management failure, and management failure is the catalyst for performance deficit of PSEs (John- Mary (2005)). Corruption increases the deficit of PSEs by misallocating and decreasing the quality of resources. The fulfillment of technological shorts comes by the lower standard machinery through corruption may results in the non-functioning of the unit and hence great loss. As history indicates In the Philippines, a nuclear power plant constructed at a cost of approximately \$2 billion during the mid-eighties did not produce a single KW of power, mainly due to sub-standard technological infrastructure acquired at inflated prices – a clear effect of corruption (Khan (2005)).

## Conclusion

The present Study was conducted to analyze the effect of governance on the performance of PSEs. PSEs are very important for acceleration of economic growth and social development of state but now a days PSEs are producing deficit and bleeding profusely. Regression run, through panel least square at selected six countries of South Asia, showed that governance has influence at the performance of PSEs. Good governance decreases the deficit, better the performance and increase the profit of PSEs. It is not wrong to blame bad governance for poor performance of PSEs, but the results for current study showed that 1% decrease in rating of good Governance will lead to increase the deficit of public sector or to decrease the performance of PSEs by just 7.232% (Table no. 3) and remaining increase in deficit is due to other factors influencing PSEs performance. So to improve the performance of PSEs, governance is the important pillar to work at, but we should not forget other pillars like management, economic and natural resources of country, rules, regulations and policies of a country.

Good governance is very necessary to make PSEs healthy organizations but attention should also be given to the other influencing factors with governance. The results of the present study are in accordance with findings of Rondinelli (2005). In his study he found that reforms regarding governance are among the most important ways to improve PSEs performance and conclude that the role of governance should not be mixed with the effective, accountable and efficient role of government in the interest of public and state development. Governance and senior management can play a significant role in improving the performance of PSEs by setting development objectives and improving the development criteria.

## Suggestions

Following suggestions can help to improve the performance of PSEs;

- Government should clearly determine and accept the role of PSEs in the development of any state and rationalize their structure accordingly.
- Economic reforms should be introduced to improve the performance of PSEs.
- An accountable mechanism should be introduced to decrease corruption and improve the performance of PSEs by either decreasing their quantity or increasing their quality.
- Public private partnership is one the most successful and experienced way to enhance the performance of PSEs
- If PSEs are bleeding profusely and might be it is not possible to increase their performance by introducing reforms then the most appropriate solution could be complete privatization.

- Governance should not be mixed with roles of government toward PSEs. So with improving rank of governance, other factors like management skills, availability of resources etc. should also be considered.

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