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PIA and the other PSEs that won't fly

Our loss-making State Enterprises continue to eat into national finances, even if one can't really put a precise number on the losses they have racked up since inception. Besides the dating issue (even Ministry of Finance's recent report on SOEs focuses on last three years, not their performance since inception), the financing mix of equity, loans, guarantees, subsidies, grants, and capitalization of loans complicates bottom-line computation.

What we do know is that they cause a massive hemorrhaging of resources, to use the cliché. If we add up last five years' losses (using numbers that are in public domain, and ignoring the definitional and stock - flow complexities) we are looking at more than Rupees 3 trillion. The IMF puts the cost of maintaining these monsters at 4 percent of GDP.

There are a little over 200 State Enterprises employing something like half a million people. Not all, of course, are loss-making. Several - SBP, OGDC, NBP, PPL, PSO and PARCO - pay handsome dividends. It is the money-sucking ones - Pakistan Steel Mills, PIA, Railways, and the Discos - that neither get better nor go away.

The top attention-grabber is PIA; more so for what it once was (showing state-managed and well-managed are not mutually exclusive). A shadow of its glorious past (remember how its advice was coveted by the likes of Singapore and Emirates?), PIA's cumulative losses keep going up despite several bouts of restructuring. Worse, it has lost an airline's greatest asset: its brand image. All that PIA is now left with is certain interesting international routes, a fleet that is out of whack with its business plans, and underutilized 15,000 employees.

Its fall from grace - from national pride to national embarrassment - is generally ascribed to inept leadership, an undisciplined and excessive work force, and 'politicisation'. Not necessarily so.

Almost all CEOs have come with impeccable credentials - from highly successful business leaders to top corporate managers to Air Marshals to aviation experts from within the organization and outside. None of them made a difference. Their short tenure is part of the explanation but not entirely. The problem is much bigger. Where it stands today, PIA needs a lot more than a hugely competent CEO, and a fully empowered star-studded Board.

The quality and commitment of the workforce is surely a big issue but its size is not the debilitating factor that it is made out to be. The former is a failure of top management and the latter a function of volume of business and balancing the positions - some departments are overstaffed, as are some stations, while others are short of people.

Politicisation - the hold of political parties on the unions that also seeps into management, cockpit and the cabin - mangles performance and promotes corruption that almost all departments, from engineering to catering to bookings, reek of. But in large organizations 'politicization' is a consequence of management failure, not its cause.

PIA essentially has two issues. First, it has a parasitic corporate culture. Individual interests supersede those of the organisation's. 'Ask not what you can give to the organisation; ask what you can take from it', is the prevalent culture.

Second, for all intents and purposes it is an insolvent enterprise.

There are great hopes in the new CEO/Chairman turning the corporate culture around. His inspiring leadership style is already evidenced by the way he is communicating within the organisation and beyond. Give him time, a luxury not afforded any of his predecessors in recent times, and we are certain to see a cultural change in PIA. Putting everyone into uniform is a small but symbolic cultural change.

It is the second issue - cash flows and investments required to upgrade the stretched out and unbalanced fleet - that could stump him. When you have a liquidity crunch you spend more time looking outside than sorting out the efficiency issues inside. More importantly, cash comes at a cost: you surrender your autonomy. Real decision-making shifts to the financiers, in this case the government.

The only way out is genuine financial restructuring. Government's current state of finances will not permit anything beyond occasional doleouts - like the 17 billion guarantee dished out this week. To us the only answer is finding a strategic partner who can raise the required finances, and then let the Board and the CEO get on with their job.

The story of the other leeches - Railways, Steel Mills, Discos - is not too dissimilar. They too have issues of corporate culture and financial viability - and several layers of accountability that discourage initiative and innovation - more than poor leadership, overstaffing or political meddling.

Look at the steel mills. From the very word go it was understood that the state will have to bear losses until such time as demand for 'flat products' (for automobiles, white goods etc.) picked up. It was also understood that its capacity will need to be at least doubled to make it viable. Government didn't have the money, and PSM, that had a succession of good CEOs (barring a couple of notorious ones) and a highly trained workforce, went off its objective to start producing billets for re-rolling mills. Here again it became dependent on government tariff policies for competing sources like scrap and ship-breaking.

What does the government plan to do with these monsters? We know little, other than putting them under a sovereign fund kind of holding company that will hopefully restore them to a pristine state, ready for divestment of one form or the other.

That raises more questions than provides answers.

The best-case scenario is financial restructuring to improve their balance sheets. Well, that has been tried before and it didn't make the problem go away. The real issue, as with the government overall, is one of corporate culture; how to create that spirit that will motivate workers and managers to go beyond narrow self-interest. How to align better the individual and organisational goals?

As every manager knows you can't get the best out of people until there is a real threat of their losing their job if they don't behave. Well, we know what happened with the Utility Stores Corporation. After the government's volte-face, for which this government is acquiring a bit of a reputation, which CEO or Board can turn things around?

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