

ILLUSTRATION BY AJAY MOHANTY



# A country is not a company

Expertise in managing government cannot easily be transferred to a firm

In India, we know a lot about how to run a firm. But the transferability of knowledge from management of firms into management of government is quite limited. Governments suffer from weak feedback loops. The essence of government — the power to coerce — is absent in firms. The size and complexity of government is greater than what is found in the largest and most complex firms. The key ingredients of government — policy and negotiation — are not seen in firms. The world of policy and public administration is fundamentally different from the world of profits in firms.

Before 1991, most firms in India were managed poorly. We now have a large number of extremely well-run firms in India. The key persons in these firms are legitimately proud of their ability to run large complex organisations. Alongside this, we see the shambolic Indian state, which is unable to get the basics right. Can management skills and techniques carry over from the Indian private sector into government?

The first problem lies in feedback loops. All big private firms are listed for trading on the stock market and see a stock price. The vast machinery of speculation in financial markets produces a real-time measure of the performance of the firm. Internally, private firms see operational MIS statements, which are updated daily. Revenue and profit are simple tools to distil the work-

ing of the firm down into a numerical yardstick.

These measures are absent when it comes to a country. The exchange rate is not a measure of the success or failure of the country, and the stock market index is a weak measure. There is no daily measure and feedback loop from decisions to measures of performance.



## SNAKES & LADDERS

AJAY SHAH

The problem is worse in India when compared to advanced economies, as we observe GDP inaccurately. A reasonably useful report card about the workings of the economy can now be constructed through the measurement of aggregate firm performance, investment projects and household conditions. But this will still induce weak feedback loops for the conduct of policy.

The second big area of difference lies in the powers of government. In a firm, the levers controlled by the management cover products, production processes and the internal organisation of the firm. In government, there is decision-making power about the internal organisation. But the surpassing feature of government is the monopolistic power to coerce.

The state has a monopoly on violence. It is able to coerce private persons, either to pay taxes or to change behaviour. State agencies are generally monopolies. The only place that you can get a driver's licence is a government office; the customer has no choice.

Private firms control their internal activities, and

cannot coerce persons outside the boundary of the firm. They look outside anxiously, wondering how customers will take to their products. Customers have all the power to reject the fruits of the labour of the firm. In contrast, state agencies control their internal activities, and coerce the people outside. To paraphrase Manish Sabharwal, the typical state agency has hostages, not customers. There is a fundamental arrogance about state organisations that private organisations do not suffer from. The puzzle of public policy lies in reining in employees who have the power to raid and imprison.

The third area of non-comparability lies in size and complexity. A big firm in India has 25,000 employees. Compared to this, state structures are vast. Indian Railways has 1.3 million employees. Even if the efficient staffing at Indian Railways is half this size, it is a vast and complex organisation when compared to what we see in the private sector.

The public policy process plays out not just through employees but through everyone. This further increases the complexity of decision making. Policy decisions have to take into account the internal behaviour of large complex government organisations, and then the responses of the general public, which in India's case is above a billion people. This is a scale of complexity that is just not found in private firms.

Finally, we turn to the essence of the policy process: Policy thinking and negotiation. What works in government is an approach of getting a policy right, and then letting it play out in a non-discretionary non-tactical fashion. A large number of people will engage with a policy and make their own choices, and a sensible government will not behave in a tactical way.

Government is the zone of general frameworks that give pretty good results in the large. In contrast, a private firm is a large number of contracts with different touch points, and potentially each contract can be different. There is no equal treatment clause that binds a private firm.

The management of a private firm is often quite autocratic, partly because its internal staff is all that it controls. In contrast, public policy requires dispersion of power. Successful governments feature an endless process of negotiation and compromise, partly because the essence of government is the coercion of persons outside government. The leadership in the world of public policy has to have the traits of listening, respecting and negotiating middle roads. This is a very different organisational culture when compared with what is found in most private firms.

It is interesting to see that the organisational DNA in some of the largest and most complex firms veers towards the strategies of government. The largest and most complex firms have reduced the power of the chief executive officer, dispersed decision-making structures, and put a greater emphasis on rules rather than discretion. The challenge of public administration lies in carrying this organisational evolution forward with a scale-up of 100 or 1,000 times.

We in India revere success and wealth, and there is a lot of respect for business folk. We tend to assume (say) that sound HR practices in TCS will work well in government. But we should be cautious when thinking about transferring expertise into the world of public policy. A country is not a company.

*The writer is a professor at National Institute of Public Finance and Policy, New Delhi*