

Improving Productivity, Efficiency and Competitiveness of State-Owned Enterprises

Pakistan's State-Owned Enterprises (SOEs) play a vital role in the national economy, particularly in strategic sectors such as energy, transport, utilities and infrastructure. Their performance has implications not only for public finances but also for economic stability, service delivery and national competitiveness.

Improving their performance requires more than reducing losses or controlling expenditure. It calls for a coordinated approach that strengthens financial discipline, operational productivity, asset utilization, working-capital management, governance and digital information systems.

This article presents a practical six-step framework such as Diagnose, Segment, Measure, Improve, Account, and Review to help SOEs translate financial and operational information into better decisions and sustainable economic and public value.

Introduction

State-Owned Enterprises have historically contributed to Pakistan's economic development by providing essential services, managing strategic infrastructure, supporting employment and operating in sectors where continuity of service is critical. However, persistent financial and operational weaknesses have made their performance a significant economic concern.

The FY2025 federal SOE report highlights the scale of the challenge. Profit-making SOEs recorded aggregate profits of approximately PKR 709.9 billion, while loss-making SOEs incurred aggregate losses of around PKR 832.8 billion. After adjustments, the portfolio recorded a net loss of approximately PKR 122.9 billion. The report also placed total SOE assets at approximately PKR 38 trillion, against liabilities of PKR 31.7 trillion.

These figures raise an important question: are the financial, human, technological and physical resources controlled by these enterprises generating sufficient economic and public value?

Productivity and efficiency must therefore become central measures of SOE performance. Financial results alone cannot provide a complete assessment of whether these organizations are using their resources effectively or delivering the services expected of them.

Understanding Productivity and Efficiency



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Productivity measures the output generated from the resources used by an organization. For SOEs, these resources include capital, employees, infrastructure, equipment, energy and working capital. Outputs may range from commercial revenue to electricity generation, transportation, infrastructure and other public services.

Higher revenue does not necessarily indicate improved productivity. If operating costs rise faster than revenue, efficiency may deteriorate. Similarly, an enterprise may own substantial assets but generate inadequate returns from them.

A balanced performance framework should therefore combine financial and operational indicators.

Financial indicators may include:

- Return on Assets (ROA) and Return on Invested Capital (ROIC)
- Cash-flow generation and asset turnover
- Working-capital ratios and debt sustainability

Operational indicators may include:

- Operating cost per unit of output
- Capacity utilization and employee productivity
- Service reliability and quality

Together, these measures help management identify where resources are being consumed, how effectively they are being used and whether they are generating measurable results.

Strategic Financial Management

Financial management can improve SOE productivity when financial information is directly linked to operational decisions.

While conventional financial statements explain what has happened, management accounting helps explain why it happened and what corrective action is required.

For example, an increase in operating expenditure should not simply be recorded as a higher cost. Management should identify the activities responsible, determine which departments incurred the expenditure and assess whether the additional spending generated corresponding improvements in output or service delivery.

Tools such as activity-based costing, variance analysis, responsibility accounting, budgeting and rolling forecasts can provide this level of insight.

Segment-level profitability analysis is equally important. Consolidated financial statements may conceal substantial differences in the performance of individual products, services, geographical areas and business units. Reviewing these segments separately enables management to identify profitable operations, activities requiring restructuring and services that may be financially unviable but essential to public-service obligations.

This distinction supports more informed decisions on resource allocation, cost control, investment priorities and performance targets.

Capital Allocation and Asset Utilization

According to the FY2025 official report, federal SOEs collectively held assets worth approximately PKR 38 trillion. Ensuring that this substantial asset base is used productively should be a management priority.

Key indicators such as asset turnover, return on assets, capacity utilization and maintenance costs can help identify underutilized or idle assets. Such assets carry an opportunity cost because capital remains tied up without generating adequate financial, operational or public value.

Capital projects also require stronger oversight. Management should regularly compare approved budgets with actual expenditure, planned completion dates with project progress, and expected benefits with outcomes achieved after implementation.

Post-investment reviews can identify weaknesses in project planning, procurement, cost estimation and execution. These findings can then inform future investment decisions.

Effective capital management does not mean simply reducing investment. It means directing available resources towards projects and assets that offer sustainable economic and operational returns.

Working-Capital and Cash-Flow Management

Weak working-capital management can undermine an enterprise even when it reports an accounting profit. Delayed customer payments, excessive inventory and inefficient payment processes can create cash shortages, increase borrowing requirements and raise financing costs.

SOEs should regularly monitor:

- Days Sales Outstanding (DSO): Time taken to collect receivables.
- Days Inventory Outstanding (DIO): Time inventory remains in stock.
- Days Payable Outstanding (DPO): Time taken to settle supplier payments.
- Cash Conversion Cycle: Time required to convert operating expenditure into cash receipts.

Receivables should be monitored by age, customer and outstanding dispute. Delays in collection should be investigated to identify weaknesses in billing, contract terms and recovery procedures.

Inventory management also requires greater attention. Identifying slow-moving, obsolete and excess stock can release cash and reduce storage costs. Better demand forecasting and procurement planning can further improve inventory control, while just-in-time practices may be appropriate where demand and supplier reliability permit.

Regular cash-flow forecasting is equally important. It enables management to anticipate liquidity requirements, plan payments and reduce dependence on emergency borrowing or government support.

Table 1: Monitoring Framework for Performance Assessment

Performance area	Illustrative indicators
Financial	Operating margin, ROIC, cash generation
Operational	Capacity utilization, cost per unit, productivity
Capital	Asset turnover, project cost variance
Service	Reliability, customer complaints, response time
Governance	Audit completion, reporting and compliance

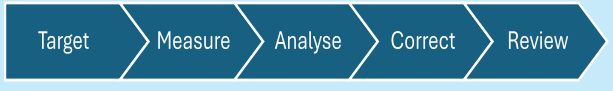
Performance Measurement and Accountability

SOE performance assessment should move beyond the traditional focus on annual profits and losses. A balanced framework should consider financial results alongside operational efficiency, capital utilization, service delivery and governance.

Pakistan's existing SOE monitoring framework already covers financial and operational performance, fiscal flows, debt, governance, business plans and key performance indicators. The challenge is to ensure that these indicators are used as active management tools rather than merely reporting requirements.

KPIs should be linked to clear responsibilities, realistic targets and regular management reviews. Where performance falls below expectations, management should identify the underlying reasons, assign corrective actions and monitor their implementation. This establishes a continuous performance-management cycle:

Figure 1: Continuous Performance Management Cycle



Governance and Financial Discipline

Productivity improvement cannot be achieved without effective governance. Weak oversight, unclear responsibilities and inadequate financial controls can undermine even well-designed operational improvement programmes.

Effective governance requires clearly defined board responsibilities, competent oversight, transparent financial reporting, timely audits, sound risk management and accountability for business-plan performance.

The World Bank has highlighted SOE governance and fiscal exposure as important areas of reform in Pakistan. Government support in the form of subsidies, grants, loans and guarantees can create fiscal risks when enterprises remain persistently underperforming.

An important distinction must therefore be made between commercial inefficiency and the cost of fulfilling public-service obligations. Where an SOE is required to provide a service that is not commercially viable, the associated cost should be identified and reported transparently. This allows management and oversight bodies to assess commercial performance without overlooking legitimate public responsibilities.

Digitalization and ERP-Based Management Information

Digital systems can strengthen SOE efficiency by providing timely, accurate and integrated management information.

An Enterprise Resource Planning (ERP) system can connect procurement, inventory, operations, billing, receivables, payables, general ledgers and financial reporting. Such integration reduces duplicate data entry, improves reconciliation and provides management with a more complete view of organizational performance.

Management and boards should have access to digital dashboards covering key indicators, including:

- Receivables and overdue balances
- Inventory levels and working-capital requirements
- Budgeted versus actual expenditure
- Capital project costs and progress
- Procurement performance
- Cash-flow forecasts
- Asset utilization
- Financial and operational KPIs

The Ministry of Finance has also emphasized the digitalization of SOE information and IFRS-aligned financial reporting to strengthen transparency and evidence-based decision-making.

However, digitalization should not be treated merely as an IT initiative. Its real value lies in converting reliable information into timely management action.

International Lessons

International experience shows that no single reform approach is suitable for every SOE. Possible interventions include stronger corporate governance, operational restructuring, increased competition, public-private partnerships and, where appropriate, changes in ownership.

The choice depends on each enterprise's economic role, financial position and market environment.

For Pakistan, this means adopting an enterprise-specific approach. SOEs operating in competitive commercial markets may require cost restructuring, improved productivity and stronger financial discipline. Those providing essential public services may need a broader performance framework that considers service quality, reliability and public-service obligations alongside financial results.

The objective should be to identify the right intervention for each enterprise rather than apply a uniform reform model.

A Practical Performance Framework for Pakistan

A practical improvement model can be organized around six connected steps. It begins with assessing the current position and ends with regular reviews that inform future planning.

1. **Diagnose:** Assess financial, operational, governance and service-delivery performance to identify weaknesses and improvement opportunities.
2. **Segment:** Classify activities according to commercial performance, strategic importance and public-service obligations.
3. **Measure:** Establish standardized financial and operational KPIs with clear targets.
4. **Improve:** Implement targeted measures covering costs, working capital, asset utilization, procurement and digital systems.
5. **Account:** Assign clear responsibility for performance targets to boards, senior management and relevant departments.
6. **Review:** Conduct regular performance reviews and update business plans in light of actual results.

This framework shifts management attention from preparing financial statements to actively managing financial and operational performance.

The Role of Management Accountants

Management accountants can play a central role in improving SOE productivity by connecting financial information with operational decisions. Their contribution extends beyond financial reporting to budgeting, costing, forecasting, capital-investment analysis, working-capital management, variance analysis and performance measurement.

These functions help management understand where resources are being consumed, what outputs they generate and whether those outputs justify the resources invested.

For SOEs, where decisions often involve substantial public resources, management accountants can help answer three fundamental questions:

- What resources are being consumed?
- What outputs are being generated?
- Are these resources creating sufficient financial and economic value?

By providing timely and relevant management information, finance professionals can support boards and executives in making informed decisions, identifying inefficiencies and strengthening accountability.



Conclusion

Improving the productivity, efficiency and competitiveness of Pakistan's State-Owned Enterprises requires a shift from a reporting-focused approach towards active performance management.

The financial position of many SOEs highlights the urgency of reform. However, sustainable improvement will not come from expenditure cuts alone. It requires better management of capital, working capital and assets, supported by transparent governance, reliable digital information and measurable performance targets.

Profitability and cash generation remain important, but they should be assessed alongside operational productivity, capacity utilization, service quality and the achievement of strategic objectives.

Management accountants can make a meaningful contribution by connecting financial and operational information, identifying inefficient resource use and supporting better allocation of capital. Their role should extend beyond reporting results to helping management improve them.

Ultimately, Pakistan needs SOEs that use public resources responsibly, operate efficiently, maintain financial discipline and deliver measurable economic and public value. Making performance information an integral part of management decisions, rather than a compliance exercise, is an essential step towards achieving this objective.

Reference

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