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Commercialising government: a challenging agenda

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COMMERCIALISING GOVERNMENT: 
A CHALLENGING AGENDA

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COMMERCIALISING GOVERNMENT:
A CHALLENGING AGENDA*

John Dixon

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ABSTRACT

Commercialisation is the product of a government deciding to address the perceived inadequate performance of public agencies by forcing civil servants to pursue a results-oriented approach to their management using business principles and practices. Its implementation brings into focus a variety of policy issues that governments must address. Moreover, effective commercialisation of a public agency requires the adoption of a commercial framework that then sets the context for the necessary structural, cultural and procedural changes. To implement such changes requires on-going political commitment and adroit senior executive civil servants. Effective commercialisation is, above all, the outcome of an incremental organisational development process that seeks to find a balance amongst the often-competing values and affiliations of commercialising public agency’s diverse array of stakeholders, and so ensures that commercial activities become an appropriate and accepted feature of organisational life.
INTRODUCTION

One proffered solution to the public sector's self-evidently inadequate performance is to inculcate market into public agencies, so that civil servants are forced to pursue a results-oriented approach to their management using business principles and practices (see Dixon, 1995). This view now pervades public administration in, most notably, Australia, New Zealand, the United Kingdom, Canada and the United States) (Caiden, 1994; Dixon, 1988 & 1996; Dixon & Kouzmin, 1994a, 1994b & 1995; Ingraham & Peters, 1988; Kouzmin, Dixon & Wilson, 1995; Lane, 1985; Mascarenhas, 1993; Peters, 1994; Pollitt, 1990). It is underscored by a neo-conservative ideology that asserts that the public sector needs, where ever possible, the discipline of market forces to constrain rent-seeking behaviour by bureaucrats, their clients and the politicians who govern them.

Commercialisation is the product of a government deciding inculcate market forces into its civil service. This first requires government to de-couple its policy advising and regulatory functions from its service delivery functions, which then allows public agencies to identify those budget-funded core and incidental functions that produce goods and services for which markets could be identified and charges (reimbursements) could be imposed. The end-users may either be external to the civil service or they may be other public agencies.

The purpose of this paper is to set out the agenda that a government, in conjunction with public agencies, must address if there is to be an effective commercialisation of appropriate government activities.¹

THE COMMERCIALISATION PROCESS

¹ This agenda is much the same as that confronted by post- and pseudo socialist countries seeking to reform their state sectors.
"Commercialisation" describes two sequential but inter-related processes. The first involves "marketisation", the creation of either monopoly, contestable, or competitive markets for the goods and services produced by public agencies. The second focuses on how public agencies must be re-engineered (Coulson-Thomas, 1993), so as to adapt their organisational structures and processes to meet the marketisation challenges.

THE SEARCH FOR COMMERCIAL OPPORTUNITIES WITHIN PUBLIC AGENCIES

Public agencies searching for activities suitable for commercialisation, need to consider a variety of questions. What would be the costs and expected benefits of the commercial activity? Who would be the end-users? What would be the impact on the service user? What are public interest issues to be considered (such as ethical and moral dimensions, political responsiveness and community participation)? Would a commercial activity interfere with the public agency's core business? Does the agency have the necessary mix of skills needed to run a commercial activity? Are there clear performance measurement and reporting mechanisms in place within the agency?

The decision by government whether or not to commercialise any public agency activity should be based on the following considerations. Is the product to be commercialised is saleable? Is it integral to core agency functions? Should the government keep control over the product or its market? Will commercialisation enhance the efficiency and effectiveness of the agency's non-commercial functions? Are there resources available that are under-utilised from time-to-time, due, say, to cyclical workloads or technology? Is commercialisation financially viable (in the short-term, can the agency recover an acceptable proportion of its recurrent costs; in the longer term, can it generate an acceptable real rate of return on funds invested)?

THE COMMERCIALISATION POLICY AGENDA
The implementation of a civil service commercialisation strategy brings into focus a variety of policy issues that governments must address.

**User Charging**

Government must decide whether the principle of user charging (reimbursement) by public agencies should be applied to the provision of particular goods and services to external end-users or to other public agencies. This involves a complex set of policy issues. These revolve around the desirability of using the market mechanism as a means of determining the utilisation and quality of publicly provided goods and services and the conceptualisation of the "public interest" dimensions of any such public provision, especially political responsiveness, desired social justice outcomes and the perceived economic and social benefits to the community. The imposition of inter-agency charging for common government services, traditionally provided by a central supply agency without reimbursement, is intended to make end-user agencies more aware of their cost, thereby removing a tendency towards a 'free good' attitude to their use, by giving them greater management flexibility in choosing their supply options, in the hope of increasing the economy and efficiency not only of the end-user agencies but also the central supply agencies.

**Budget Supplementation**

The decision to impose inter-agency charging for common government services previously budget-funded through a central supply agency involves concomitant decisions about end-user budget supplementation. The issue is whether, to what extent and upon what basis government should transfer the previous budget allocation for central-agency provision to end-user agencies. The policy issue for government is to determine the degree of supplementation that should be provided, for it is in the interests of both the end-user and the central supply agencies to gain full supplementation, regardless of the potential efficiency
gains projected. It also raises the issue of whether, as part of the deregulation process, end-user agencies should be given some influence, even discretion, over the level and quality of a central supply agency's provision of such goods and services.

Revenue Retention

Revenue retention is a key issue for commercialising public agencies, for it offers a financial incentive that encourages increased efficiency and cost reductions. Undoubtedly, however, revenue retention creates a dilemma for both government and for those agencies.

For government, allowing a public agencies to retain their net commercial (extra-budgetary) revenue reduces budgetary control over public provision, especially where that agency’s core function is being commercialised. It also reduces the government’s flexibility to cross-subsidise particular end users or particular publicly-provided goods and services, in order to meet public policy objectives. From a public agency’s perspective, the retention of revenue by a constituent administrative unit with a commercial orientation but with primarily non-commercial goals can create incentives that may distract it from the achievement of those primary goals.

Central Supply Deregulation

The deregulation of the provision of budget-funded, centrally-provided common government services gives to individual end-user agencies the responsibilities for the acquisition of those goods and services, whether by way of contracting out to a central supply agency, by managing in-house supply or by contracting out to the private sector. This gives rise to a set of thorny policy issues relating to the appropriate degree of control that the central control agencies should have over end-user agency supply options (notably contracting-out or in-house production decisions) and over central supply agencies.
Political Oversight, Intervention, Control and Accountability

The decision by government to commercialise a particular budget-funded activity implies the desirability of the goods and services produced being sold within the rigours and rigidities of an extant set of politico-administrative procedures and practices. Thus commercialised activities are not beyond government responsibility and hence direct political accountability and, potentially, control. Their degree of operational independence is a matter of government discretion. Any weakening of the degree of government authority over an agency’s commercial activities raised important issues of government accountability. As there is a fundamental connection between control over decision-making and accountability, the key issue is how far a government can (or should) be held responsible for the conduct (or misconduct) of a public agency’s commercial activity. A balance must clearly be achieved between the need for a commercialising agency to be able to pursue commercial goals and the government’s need to ensure appropriate accountability, especially where the goods and services are provided through a public monopoly, thus generating a potential for monopoly rent.

Commercialisation creates new politico-managerial situation; one that requires a re-defining of the prevailing accountability framework (Dixon, Kouzmin & Korac-Kakabadse, 1996). An appropriate accountability framework would need, at very least, to involve the government in reviewing and approving business mission statements; reviewing and approving business plans; reviewing annual estimates, the annual report and financial statements; reviewing performance against business plans; giving directions in relation to desirable and undesirable connections with the private sector, avoidance of conflicts of interest, expectations regarding advice to the government about the activities of any external review bodies, and expectations regarding the advice
that should be tendered on matter expected either to give rise to media coverage or to come to the attention of the legislature.

Accessing Private Markets

The charging of a fee (or seeking reimbursement) for the provision of goods and services to external end-users involves the political acceptance of the principal that a public agency should be allowed to compete with the private sector in the market place. The dilemma for government is that sanctioning such competition may solicit accusations from private sector competitors that public agencies would have an unfair competitive advantage because they do not (indeed even cannot) operate on a full cost basis, preferring to ignore, of course, the myriad of rules and regulations that constrain and hamper the conduct of a commercial activity by a public agency. For a commercialising central supply agency operating in a deregulated civil service market environment, the dilemma is that if it is unable to compete with the private sector for market share in other markets, while the private sector is able to compete with it for civil service market share, the result may be decline in its financial viability due to a shrinking its end-user-base that increases its average fixed costs and thus its break-even prices.

Community Service Obligations

Community service obligations include all requests by the government for action to be performed (or not performed) in the circumstances that are not in the "commercial interest" of a commercialising public agency. The questions begged by this definition, however, is how and by whom should "commercial interest" be defined. The specific articulation by government of what a commercialising public agency's community service obligations are, and how they should be accommodated, is fraught with difficulties, for they reflect, in general, a government's societal (natural and social justice) objectives. Yet the existence of unaccommodated community service obligations blurs public accountability, by
complicating the conceptualisation of "efficiency" and "effectiveness". Government must, then, determine, on a case-by-case basis, how it can best accommodate community service obligations.

COMMERCIALISATION: A QUASI-BUSINESS FORMATION PROCESS

Enabling public agencies to conduct commercial activities involves a quasi-business formation process by which, to vary degrees, in varying sequences, and over varying periods of time, a basic business framework is established and a range of the concomitant structural, cultural and practice-procedural issues are addressed. Essentially this process must give the commercialising agency the capacity to scan its markets, to determine the level and nature of the demand for its commercialised goods and services; and to respond to that demand, by effectively addressing and meeting end-user needs in way that is financially and organisationally acceptable to its external and internal stakeholders.

The Business Framework

A commercialising public agency must establish a set of financial, market, administrative, accountability and external control frameworks that are acceptable to the commercialising agency's stakeholders, especially government and the central control and review agencies. This involves establishing an appropriate set of business ground rules.

Financial Framework. An appropriate financial framework for the commercialisation of an agency's core activities might be the formation of one or more Trust Accounts may be an option. In the event of multiple core activities being commercialised within an agency a decision must be made as to whether one omnibus Trust Fund or a set of Trust Funds should be created. The former option facilitates cross-subsidisation amongst commercial activities within the Trust Fund and allows better cash management. When core activities are to be commercialised gradually or when a goods and services incidental to the core
budget-funded activities, it may be more appropriate to deem any revenue derived from the sale of appropriate goods or services to have been appropriated.

The creating the necessary capital (or funding) framework involves identifying and agreeing upon the cost of any assets to be transferred to the commercialising agency; setting levels and basis of repaying any budget-funded establishment grants (including capital and any contingency grants), operating subsidies and working capital loans required to meet expected working capital deficits (in the light of any projected cash-flow shortfalls), with loans perhaps expected, to be budget-neutral and to attract a specific rate of interest, perhaps equivalent to the long-term bond rate; agreeing on the treatment of accrued liabilities (such as accrued long service, sickness and recreation leave); agreeing on how additional capital funds will be financed (from retained revenue, from annual budget-funded grants and loans, or even from private capital market sources); setting appropriate target real and nominal rate of return on funds invested (if any); setting acceptable level of revenue retention; deciding on any supplementary funding for, say, insurance costs, where the insurance risk was previously carried by government, for one-off staff redundancy costs, or for predetermined future wage rises; determining the funding of any community service obligations; and deciding on what (if any) taxes and charges should be paid.

Market Framework. For central agency suppliers of common government services this involves the creation of a civil service regulated monopoly market, with a negotiated target deregulation date, so as to introduce a degree of contestability and, ultimately, competition into the provision of such services.

Accountability Framework. In the context of the articulated accountability requirements, the commercialisation: quasi-business development process: commercial framework: accountability framework; nature and periodicity of the
performance information needs of the government, the Legislature and the central control and any review agencies have to be identifies and met. This would include financial management performance indicators (such as net operating profit, gross sales, sales per employee, net profit as a percentage of sales, return on total assets, return on net assets and total cost per employee); market management performance indicators (such as market share, customer satisfaction and customer complaints); production process performance indicators (such as productivity and community service obligations); and human resource management performance indicators (such as industrial disputation, occupational health and safety and equal employment opportunity).

Central Agency Control Framework. The appropriate roles of a variety of central control agencies have to be negotiated. Specifically, the roles of the agency responsible for financial administration, with respect to financial reporting and accounting practices and for personnel administration, with respect to staff classification structures, pay and conditions, labour relations, recruitment and promotion.

These commercial frameworks define the setting within which the structural, cultural and practice-procedural dimensions of the quasi-business formulation process are determined and implemented.

Structural Dimensions

The effective commercialisation of a previously budget-funded activity demands a review and perhaps a re-casting of the host agency's structure to ensure that it is aligned with its commercialisation goals. The nature of any structural changes required, particularly the desirability of creating one or more commercial units within an agency, depends upon the extent to which the commercialising activities have primarily commercial goals and whether they face of actual (or potential) competitive pressures. An agency commercialising in
a monopoly market environment activities that have primarily non-commercial goals confronts the challenge of designing a structure that while acknowledging the primacy of the non-commercial goals, particularly in terms of product design, facilitates marketing and distribution to fee-paying end-users. In contrast, an agency commercialising in a contestable or competitive market environment activities that have primarily commercial goals confront the need to design a structure that facilitates the adoption of a spectrum of commercially-oriented practices (including marketing and financial management practices) and the building of a commercial culture (Mascarenhas, 1993), without detriment to any remaining non-commercial activities of the agency. Depending on market features and conditions, this may well create a need to establish one or more commercial unit within the agency, each having an organisational structure which is vertically flatter (so that production process, especially problem-solving, decisions can be made at points that are closer to the end-user, so as to reduce market-sensitive decision response times, to simplify co-ordination and to reduce communication distortions); less formalised (to give staff more discretion in satisfying idiosyncratic end-user needs); and more complex horizontally, even one with a significant degree of spatial differentiation (to give staff a competitive advantage in being closer to their end-users). The challenge is to ensure subsystem congruence (Shareef, 1994), which means that these differentiated structures cannot be allowed to become closed systems serving self-serving vested interests (Jones, 1991).

Cultural Dimensions

Commercialisation requires the inculcation of an organisational culture that supports commercially-oriented values and attitudes. Any changing of a public agency’s ideals, norms and values in order to inculcate such a commercial culture may gives rise to a potential culture conflict, the existence of which reflects the existence of resistance to change by those who, when their past is threatened, are
frightened of loosing whatever it was they valued in the old culture, perhaps even their own sense of self-esteem. Culture conflict must be managed (Brown, 1992) by those who are sensitive to the symbolic dimensions of their management roles (Gunner, 1990) and who are capable of promoting, protecting and propagating the commercial culture-forming values (Sutton & Nelson, 1990). Culture conflict must be broken down by reason rather than by coercion (Karp, 1988). Anthony (1990) has observed, soberingly, that management-imposed organisational belief systems, values and meanings have rarely been transmitted, successfully, to those whose behaviour are targeted for change, which has the effect of organisationally isolating managers, who become locked into a commitment to values that are not shared and who become cocooned within the safety of their contrived organisational world view.

How to achieve the required culture change is a challenge confronting all commercialising agencies. One approach that is relevant to the commercialisation of an agency' core activities is to adopted a “cultural revolution” strategy (Gangliardi, 1986), which is designed to develop an organisational socialisation (learning) process (Ostroff & Kozlowski, 1992) that would induct all its employees into the desired commercial culture, with the intent of making it dominant. In implementing this cultural revolution, an agency has to ensure that its commercial goals are clearly articulated, so that staff focus is centred on those positive dimensions of commercial reform that are compatible with the existing culture (such as improving end-user service and creating new career opportunities) rather than the negative dimensions (such as cost cutting and the spectre of staff redundancies), so as to avoid a debilitating culture clash, although clash of existing staff perceptions and the envisioned commercial culture can be motivating.

Where an agency is commercialising some but not all of its important core activities, the possibility that by the inculcation a commercial sub-culture, one
that by reflecting the common problems, situations and experiences faced by a significant number of employees operating in a market environment, may only give lip service to core values of the once-dominant culture. This may produce commercially dysfunctional culture conflicts (Gregory, 1983), an even a more destructive sub-culture warfare or perhaps sub-culture elitism, under which the agency's commercial activities becomes exclusive clubs, with restricted entry and with values that are perceived to be more important that those of the agency.

Agencies commercialising only incidental activities, especially those with a commercially dysfunctional dominant culture (as is the situation in policy-oriented public agencies), face the additional conundrum of how to create a sub-culture that is conducive to commercialisation and yet able to co-exist with a dominant culture that may perceive it as a threatening heresy.

Procedural Dimensions.

In the context of the envisaged business framework, commercialising public agencies confront the dilemma of how to develop and implement practices and procedures that will make them more business oriented, the essence of which is market-driven strategic planning, implementation and control, within constraints imposed by civil service-wide procedures, practices and guidelines, which are intended to achieving different planning, implementation and control outcomes.

Strategic, Corporate and Business Planning. A commercialising public agency context must develop appropriate plans, based upon its commercial mission as determined with the government. In doing so it must draw upon a shared organisational vision to generate a set of accepted commercial objectives, which must have a specified time-frame and be mutually consistent, attainable and measurable. This set of objectives provide the basis for a concomitant set of agreed corporate, business and operational plans. Together, these map out what
the agency hopes to achieve by fulfilling its commercial mission and how it intends to go about doing so.

The planning process also requires the establishing of subsidiary functional objectives with respect to financial returns, productivity growth, human resources (in the light of prevailing civil service-wide personnel practices and procedures), customer service (in terms of benchmarked standards), market performance, market research and product development, physical resources (in terms of fixed asset retention, fixed asset disposal, maintenance and depreciation), and community service obligations.

The corporate plan constitutes the commercialising public agency's corporate grand design. It determine how its commercial objectives are going to be achieved within the prevailing and future market environment and within the context of the extant political guidelines and constraints. It reflects how the it intends to change (by means of future product substitution or diversification, market expansion or contraction, or market and/or product specialisation) and how such changes are to be resourced, implemented and evaluated. It identifies the perceived business risks that are likely to be confronted and elaborates on how they might best be managed.

The business plan flows from the corporate plan and focuses on how commercialising agency is going to address the current and future opportunities and threats generated by actual competitive pressures (if its commercial activities are to be conducted in a competitive market), or by the threat of competition (if the commercial activity is conducted in a contestable monopoly market).

Operational strategies are needed to support chosen strategic, corporate and business strategies and relate to the functional areas of the commercial activity.
Product Delivery Strategies. A set of end-user-driven product delivery practices and procedures are needed in order to increase end-user influence, even control, over both the quantity and quality of goods and services provided. This involves instituting a continuous improvement process (Bush & Dooley, 1992).

Financial Management. Reliable and accurate financial information systems, with attendant budgeting, internal controls and accounting practices and procedures, is necessary not only for the effective management of a public agency's commercial activities but also to satisfy public accountability requirements. Budgeting practices and procedures must enable the generation of cash-flow, revenue and expenditure, and capital budgets. Cost accounting procedures are needed to ensure that pricing decisions are based on accurate and reliable costings and that budgeted expenditure, purchasing and production costs variations are monitored. Cash, invoicing and debt management procedures are needed to ensure that adequate controls exist to satisfy probity requirements, to ensure that cash held is adequate but not in excess of requirements, and to minimise the risk of fraud. Invoicing procedures need to be established to ensure that accurate and timely invoices are generated. A debtors system must be able to provide timely and accurate information on accounts receivable (and their aging). Accounts payable procedures and policies must ensure that debts are paid on an acceptable basis. Asset valuing and recording procedures are needed to ensure that the assets entrusted to the organisation are safeguarded. Risk management procedures must facilitate the conduct of periodic risk audits and concomitant regular risk monitoring, in order to facilitate the development of appropriate policies with respect to risk elimination, risk control and risk financing.

Human Resource Management. Two strategically important human resource management issues confront commercialising agencies in their infancy: the employment of commercially experienced staff and the preparation of staff for the required organisational culture shift. Central to the success of commercialisation
is the development of a set human resource management practices and procedures that enable effective management of public agency commercial activities.

Human resource planning practices and procedures are needed to forecast the short-term and long-term human resource needs of the commercial activities, in the context of its corporate strategies, and the steps necessary to meet those needs (see, for example, Saliba, 1993). Recruitment, selection and promotion practices and procedures would have to strengthened the principle of merit recruitment and promotion. Performance appraisal procedures would need to be designed so as not to encourage zero-sum competition, not to destroy morale and not to inhibit motivation. Practices and procedures are needed to deal effectively with staff who evidence poor performance. Redundancy procedures are needed to facilitate any organisational down-sizing required. Performance pay procedures are needed to ensure that staff are motivated to achieve the corporate commercial mission without jeopardising team work, undermining morale or generating resentment. Human resource development practices and procedures are needed to improve current and future work performance.

**Market Management.** Because public agency’s commercial activities operate within a market setting, they requires the capacity to undertake the strategic scanning of the market environment, which requires instituting systems to gather market data that allows the monitoring of marketing performance against predetermined performance standards or benchmarks and to gather market intelligence that allows the timely identification of possible, probable or likely market threats and opportunities.

**Strategic Monitoring and Control.** Strategic monitoring and control requires the design of a set of performance indices including financial management performance indicators (such as net operating profit, gross sales, sales per
employee, net profit as a percentage of sales, return on net assets, and total cost per employee); market management performance indicators (such as product sales, market share, cost of sales, customer satisfaction and customer complaints); service delivery performance indicators (such as productivity, product quality, product developments and community service obligations); and human resource management performance indicators (such as staff turnover, job satisfaction, absenteeism, industrial disputation, occupational health and safety, and equal employment opportunity).
COMMERCIALISATION: 
THE ORGANISATIONAL DEVELOPMENT PROCESS

Commercialisation pressures create a need for a unique set of organisational changes within commercialising public agencies that would bring them into a more congruent "strategic fit". This means aligning their strategies, culture and leadership style to their competitive situation (Chorn, 1991). This requires a commercialising public agency to become more entrepreneurial, whilst maintaining its organisational integrity and protecting its extant professional and technical standards; and to "manage by anticipation" (Chartier, 1985: 177) the organisational and behavioural changes needed to achieve the desired level of commercial performance given the permitted degree of market orientation.

Commercialising public agencies must create what Gilmore and Barnett (1992: 535) metaphorically describe as "social architecture", the "scaffolding that can support the necessary thinking that could result in structural change". This requires the adoption of intervention strategies that allow staff to continue to undertake, as competently as possible, organisationally-essential tasks, and so reduce any perceived risk, while at the same time facilitating cultural change. A multi-faceted organisational development process must be initiated, one involving the articulation of an organisational change goal statement embracing increased commercial effectiveness at the micro-level (such as, better product quality, greater value for money and lower costs); the specification of the likely impact (both directional and degree) of commercialisation; the development of a commercialisation implementation plan based on a widely-shared diagnosis of the likely reactions of those responsible for its implementation, or of those affected by commercialisation; the implementation of commercialisation strategies and tactics; and the monitoring of the impact and the success of the implementing of those strategies and tactics, so as to determine whether and when adjustments to them are needed.
CONCLUSION

The effective commercialisation of a public agency requires an on-going political commitment so that any resistance to change within that agency and within the civil service as a whole can be broken down. It also require adroit senior executive civil servants who are capable of managing the ambiguities of commercialisation. This means that they have a commitment to the values of commercialisation (by re-aligning their personal goals and by making any requisite personal changes); a desire to achieve successful organisational goal re-alignment (to ensure that commercialisation reform is accepted and institutionalised by means of cultural, structural and procedural change); the ability to identify how they can best maintain, in the face of change, the agency's organisational integrity and its professional or technical standards of task performance; and the ability to make the structural and procedural changes needed and to communicate with their staff about the precise nature of the commercialisation reform proposals, their likely organisational impacts, the extent of organisational change envisaged, the personal behaviour changes required, and support that will be provided to those grappling with their own and others' behaviour change.

Effective commercialisation is, above all, the outcome of an incremental organisational development process that, of necessity, iteratively seeks to find a balance amongst the often-competing values and affiliations of commercialising agency's diverse array of stakeholders, and so ensures that commercial activities become an appropriate and accepted feature of organisational life.

REFERENCES


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