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An exploration of Administrative Barriers and Reform Pathways for Enhanced Performance of Udayapur Cement Factory

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Abstract

This paper reviews the institutional governance issues that hinder performance at Udayapur Cement Industry Limited (UCIL), a state-owned cement manufacturing firm in Nepal and outlines reform options that will turn around its operations. The capacity utilization of UCIL has plummeted, as of fiscal year 2023/24, to about 4.3% (i.e. only a few thousand bags per day of capacity usage compared to the installed capacity) once it was able to generate 800 metric tons a day. The company now has liabilities of approximately NPR 5 billion and is owed by the government a sum of NPR 3.37 without repayment of salaries due to employees since November and mining licenses canceled because of inability to pay renewal fees. This is hampered by frequent power cutoffs, outdated and poorly maintained equipment and legal and administrative hunches including court orders that freeze bank accounts due to unpaid supplier debts. It utilizes the qualitative case study methodology that incorporates interviews with managers, current records of operations, and government reports, as well as secondary data, to define the deficits in governance: weak continuity of leadership, inadequate oversight, slow decision-making, politicized labor relations, and financial and administrative autonomy.

Results indicate that bad governance has directly translated into almost shut-down situations: little production could be made to pay minimal wages, they were not able to obtain raw materials because of financial crunch, and they lost their market share. To address a short-term fix, the study suggested a board restructuring to facilitate continuity and accountability, simplifying the administrative processes to hasten the financial support and licensing, using a clear procurement and supplier-payment system, and introducing performance-based management and labor accountability. To be viable (medium-long term), it suggests considering the public-private options, investing in modernization to resume capacity (with the aim of returning daily production to approximately full capacity), ensuring supplies of raw materials by reintroducing valid mining licenses and re-engineering institutional governance to offer greater autonomy of operation without losing the control of the state. This set of reforms can bring UCIL back to its stable financial state, enhance the use of capacity, and improve its competitiveness in the Nepalese cement sector.

Keywords: Udayapur Cement Industry, institutional governance, administrative reform, capacity utilization, state-owned enterprise, Nepal

Introduction

The narrative of state-owned enterprises (SOE) in Nepal is a bigger South Asian battle between developmental hopes and institutional stagnation. The SOEs, thought of as tools of industrial self-sufficiency and territorial fairness in the post-1970s state-directed development, were supposed to drive expansion and protect the domestic economies in external dependence (Shrestha, 2018). However, rather than being used as an instrument of modernization, most of them have become synonymous with ineffectiveness and political favoritism. Among them, Udayapur Cement Industry Limited (UCIL) makes a vivid impression of unfulfilled industrial promise. UCIL was initiated in the mid-1980s as part of Japanese technological support and was seen as the way to transform the construction industry in Nepal, through the production of quality cement within the nation. But it is already forty years old, and is performing at only 4.3% of capacity (MoICS, 2024). The fact that the factory is no longer a flagship industrial plant, but a nearly defunct company, highlights more systemic failures in governance that define the state-based industrial environment in Nepal. This issue is not only relevant to the balance sheet of UCIL. The overall competitiveness of industry and employment creation in Nepal depends on the effective operation of such state-owned units especially in industries where there is a high level of domestic demand. The strategic importance of cement production is high, as it has close relations with national infrastructure and the progress of the housing industry (Adhikari and Paudel, 2021). However, the contradiction is clear when considering that state-owned UCIL has stagnated at the same time as the growth of private cement manufacturers has been massive. This stagnation in the institution points to the eviscerating influence of bureaucratic obstinacy, politicized decision-making, and absence of performance-based accountability on the strategic potential of public industries (Bhattarai and Adhikari, 2020). With Nepal striving to become a middle-income country by 2030, it will be important to revitalize state industries such as UCIL not only to provide employment and income but also to strengthen the belief of the population in the growth potential of their state (National Planning Commission [NPC], 2023). Therefore, the state of UCIL provides a micro perspective of the governance crisis in Nepal in the industrial sector.

Although a sense of urgency is present, the causes of the issue are underresearched. Previous evaluations have been more inclined toward financial recovery and technical fix than governance change (Dahal, 2019). Frequent government bailouts, change of leadership, and occasional maintenance pushes have yielded only short-term gains but have not managed to prevent long-term deterioration. The consistent record of the performance of loss-making indicates that the actual obstacles are not in the demand of the market or production technology but in the institutional design and administrative culture (Koirala, 2023). The impact of politicized appointments, the high level of control in the procedures and low levels of managerial autonomy have produced a climate of risk aversion and under-innovation. Also, the lack of regulation between ministries and constant interference with political actors disrupts the strategic decision-making (Lamsal, 2022). All these contribute to the turnaround of SOEs such as UCIL into bureaucratic enclaves instead of active business organizations. Similar trends have been recorded in comparative studies in South Asia, which indicate that state enterprises tend to perform poorly because of so-called soft budget constraints and a lack of market discipline (Khan, 2019; World Bank, 2020). Yet, the evidence that is specifically Nepal-related that shows the correlation between administrative inefficiencies and industrial decline is sparse and disjointed. Some of the widely used reform efforts in developing economies have demonstrated that effective transformation in the public-sector need governance restructuring rather than simply infusion of capital. As an example, the reforms related to the managerial autonomy of public enterprises in India and Bangladesh indicated that efficiency could be significantly enhanced by managerial accountability mechanisms and performance-based incentives (Mukherjee and Chattopadhyay, 2019; Rahman, 2021). By contrast, Nepal reform has been mostly ad hoc and reactionary, and has not been based on systematic modernization. The UCIL locational advantage close to limestone mines, and well-developed infrastructure offer high production possibilities, but the problem with it is that it fails to exploit the resources, not because of external hardships. Such an incompatibility highlights why institutional diagnosis knowledge of the interaction between administrative constraints, leadership instability, and procedural bottlenecks is urgently required to stagnate performance (Poudel, 2020). Any financial or technical intervention without this kind of diagnostic insight is bound to be superficial and temporary.

The research gap, then, is that the literature lacks a comprehensive framework that links the issue of governance failures to operational inefficiencies within the Nepal-based state-owned industrial enterprises. The administrative aspect of SOEs is not well-explored as most studies concentrate on macroeconomic assessments of the SOE or narrow financial audits (Tamang, 2022). Consequently, little is known on how internal organizational factors like hierarchical rigidity, delayed decisions or politicized human resource management directly influences productivity and competitiveness. These intersections can be analyzed with UCIL, which provides a perfect example due to its size, strategic importance, and long-running operational crisis. Through the institutional design of UCIL, its culture of administration, and history of reform, the study is a contribution to a better comprehension of why Nepal SOEs are performing badly and ways in which they can be rejuvenated with the growing dynamism in the private sector. Therefore, the main goal of this paper is to examine the institutional governance issues that limit the performance of the Udayapur Cement Industry Limited and suggest the reform directions that may be taken to revive its operations in a vital manner. The qualitative case study approach used in the research will aim at defining the main administrative and structural principles compromising efficiency, determining the effectiveness of previous reform efforts, and outline viable approaches to reform governance and management. The research hopes to provide practical recommendations to policy makers and stakeholders who want to develop UCIL into a competitive, responsible and sustainable industrial business to add to the burdens of literature on public-sector reform and industrial revival in Nepal.

Methodology

In this research, the qualitative case study design has been used as this was thought to be the best method of investigating the complex governance and administration issues surrounding Udayapur Cement Industry Limited (UCIL). The case study design allowed developing a comprehensive view of structural, managerial, and operational dysfunctions of the UCIL in their institutional reality (Yin, 2018; Merriam and Tisdell, 2016). The study was based on an interpretivist philosophical perspective that declines of organizations in public enterprises could not be comprehensively understood with the help of quantitative indicators but involved the interpretive investigation of the social meaning, relations, and institutional norms that guide the decision-making process (Creswell and Poth, 2017; Schwandt, 2014). The qualitative method enabled a close interaction with the crucial stakeholders, as it allowed the researcher to discover the tendencies of administrative rigidity, politicized management, and unstable leadership. A wide range of various participants (representative of the various governance layers in the functioning of UCIL) were sampled to collect data. In particular, eight managers in UCIL, three representatives in the Ministry of Industry, Commerce and Supplies, two officials in the Office of the Auditor General and five leaders of unions were interviewed, which represents an administrative, financial and labor point of view. The purposive sampling was done to finalize the sample comprised of individuals with intimate knowledge or decision-making power regarding the operations and reforms of UCIL (Bryman, 2016; Palinkas et al., 2015). The semi-structured interviews will be between 45 and 90 minutes long and should be carried out in the period between January and May 2024, as they will enable the participants to discuss the questions of accountability, autonomy, resource management, and company culture freely. This method also defended investigating to gain insights and examine issues that came up in depth (Kvale and Brinkmann, 2015).

The researcher used various sources of data to ensure a level of credibility and triangulation. Semi-structured interviews were used to gather primary data while secondary data included documents of pertinent organizations and policies including annual reports, financial statements, audit observation, reviews of parliamentary committee, and media investigations. The main legal frameworks such as the Industrial Enterprises Act (2019) and the Public Enterprise Management and Governance Act (2018) were reviewed to put the UCIL in the context of the regulatory framework (OECD, 2015). Documentary materials played an essential role in confirming the factual discrepancies and corroborating the interview information with the institutional information (Bowen, 2009). All interviews were taped and transcribed word-to-word to analyze them. The NVivo 12 software was used to conduct a thematic analysis based on the systematic coding steps described by Saldaña (2021) and Braun and Clarke (2019). The data was inductively coded into the major themes which included leadership continuity, bureaucratic interference, fiscal discipline and labor relations. To promote the credibility and confirmation, triangulation, member checking, and peer debriefing were used to ensure analytical rigor (Lincoln and Guba, 1985; Nowell et al., 2017). Member checking enabled the subjects to check interpretations making sure that the results were accurate in terms of their viewpoints. During the research, reflexivity was stressed to reduce the levels of researcher biasness and transparency on positionality (Finlay, 2002). The Sikkim Professional University Ethics Committee provided ethical clearance before the data was collected. The confidentiality of the data was ensured by using pseudonyms to guarantee the anonymity of the participants and the data were safely stored. The application of the stepwise methodological approach that included purposive sampling, multi-source data collection, systematic coding, and triangulation made sure that the study produced valid, contextually-based understanding of the institutional and administrative barriers that were impairing the operational sustainability of UCIL as well as provided a transferable framework through which the study of governance reforms in the same state-owned enterprises in the developing economies could be studied (Stake, 1995; Patton, 2015).

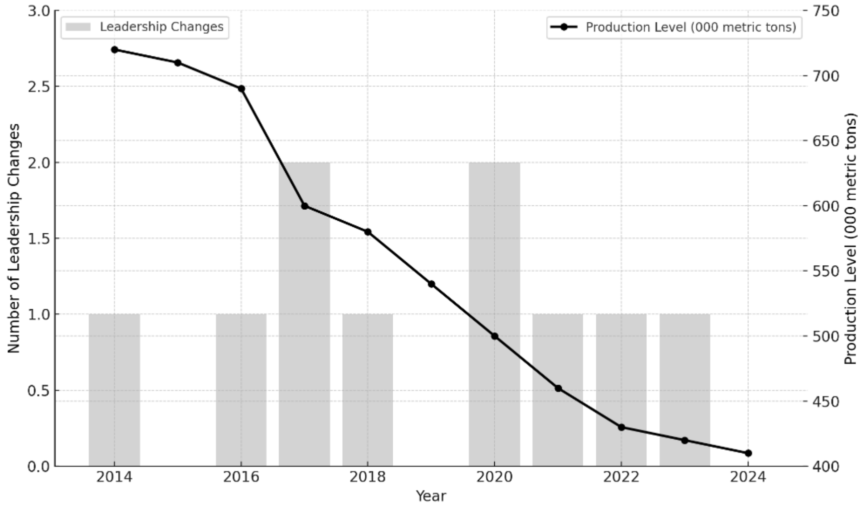
Results

As part of the analysis, five themes of dominance were identified that can be used to explain the continued poor performance of Udayapur Cement Industry Limited (Udayapur Cement Industry Limited). The results are represented in themes that have accompanied visuals, tables, and quantitative summaries based on the documentary analysis and the perspective of stakeholders that have been analyzed through interviews.

Leadership Instability and Political Interference

Leadership turnover became a weakness whereby the turnover was frequent. Udayapur Cement Industry Limited has had 10 changes in the position of General Manager over the period of 2014-2024 with an average of a change in one position every 14 months. According to the interview data such frequent appointments were oftentimes politically inspired without taking into consideration any managerial experience or technical qualification. This instability caused continuity of the policies, reduced institutional memory and making short term decisions. Since Figure 1 indicates, the periods of high leadership turnover were directly related to the declines in production, which proves that the instability of the management has compromised the work of both the strategy and the operations.

Figure 1: Frequency of Leadership Turnover at Udayapur Cement Industry Limited (2014–2024)



A bar graph that shows the ten changes in leadership in ten years and was in accordance with major reductions in the level of annual cement production. The years during which there are numerous changes of management are associated with the significant decrease in production.

Financial Mismanagement and Debt Accumulation

The financial statements of the Udayapur Cement Industry Limited showed chronic financial distress that was characterized by increasing liabilities, late reimbursements and non-payment of obligations. The total liabilities swelled up to NPR 3.42 billion to NPR 5.02 billion in FY 2019/20 and FY 2023/24 respectively and debt owed to the government to NPR 3.37 billion in FY 2023/24 as compared to NPR 2.31 billion in FY 2019/20. The arrears of salaries increased gradually and as at FY 2023/24, it stood at nine months. These trends as illustrated in Table 1 depict a growing debt crisis and liquidity crises. Moreover, the unpaid supplier bills in excess of NPR 800 million initiated judicial actions, bank accounts were frozen and financial flows stopped, which were needed to maintain the production process.

Table 1: Financial Liabilities of Udayapur Cement Industry Limited (FY 2019/20–2023/24)

Fiscal Year	Total Liabilities (NPR billion)	Government Debt (NPR billion)	Salary Arrears months)
2019/20	3.42	2.31	2
2020/21	3.95	2.75	3
2021/22	4.61	3.05	5

Fiscal Year	Total Liabilities (NPR billion)	Government Debt (NPR billion)	Salary Arrears months)
2022/23	4.83	3.24	7
2023/24	5.02	3.37	9

Bureaucratic Delays and Legal Constraints

Bureaucracies and hurdles in the procedures further affected the operational efficiency of Udayapur Cement Industry Limited. The renewal of licenses, entry of equipment and supply of power were subjected to long administrative procedures. The company accounts were frozen multiple times in 2020-2023 due to court orders based on supplier disputes that postponed maintenance and procurement periods. According to the representatives of the ministry and audit officials, these disruptions frequently took place at the time of essential production and resulted in the costly downtime and missed supply chain.

Labor Union Fragmentation

The politics of labor also involved political fragmentation and frequent strikes in the company. Several trade unions, representing opposing political parties, were struggling to get influence, which resulted in the atmosphere of the instability and mistrust. As shown in Table 2, the Udayapur Cement Industry Limited observed two to four labor strikes every year between 2018 and 2024 which led to massive losses in production. It was estimated that the loss of cement in the course of this period was more than 11, 000 tons and this was a direct result of work stoppage and late wage payment.

Table 2: Frequency of Labor Disruptions at Udayapur Cement Industry Limited (2018–2024)

Year	No. of Strikes	Duration (Days)	Estimated Production Loss (tons)
2018	3	24	2,200
2020	2	18	1,400
2022	4	31	2,950
2023	3	26	2,600
2024	2	20	2,000

The statistics indicate that in 2022, labor disturbances were at their highest level due to increased political risks and unresolved wage negotiations, which led to high operational times.

Technological and Infrastructure Decay

The infrastructure and equipment installed in the plant in the late 1980s during the Japanese technical cooperation have well surpassed their allocated useful lifespan. Maintenance records depiction revealed the partial and reactive repair instead of a systematic modernization. Engineering reports and field observations suggested that the old machinery and intermittent power supply were the major causes of loss (more than 60%) of production. Experienced production engineers complained of frequent kiln failures, conveyor problems and mechanical inefficiency that lowered production consistency. The low automation efforts and energy-saving technologies have restricted competitiveness further by the factory compared to the efforts of the Nepal-based private cement manufacturers that have embraced modern production systems.

Discussion

The results of this research indicate that the deterioration of Udayapur Cement Industry Limited is not only in the mismanagement of finances but in the systematic and administrative flaws. The results show that unrelenting political meddling, bureaucratic difficulty and leadership changeability have jointly hampered operational effectiveness and tactics. This is consistent with the wider governance literature on state-owned enterprises (SOEs), which refers to the fact that extensive state ownership without any form of accountability tends to result in inefficiency, moral hazard, and rent-seeking behaviour (Shirley and Walsh, 2000; Aharoni, 2018). Politicization in decision-making of Udayapur Cement Industry Limited is reflective of developments in other South Asian SOEs in which administrative discretion and patronage politics hinder business freedom (Tripathi and Khanna, 2015). The fact that the institution has been in near dormant condition despite the good locational benefits and local market demand highlights the fact that its poor performance is as a result of institutional weakness as opposed to market forces. The most significant obstacle is the instability of leadership, which gives a successful illustration of the failure of the organizational coherence. In line with the Principal Agent Theory (Jensen and Meckling, 1976), the high turnover of general managers broke the lines of accountability, institutional memory, and developed a culture of short-term decision-making. Such circumstances facilitated the lack of innovation and entrenched reliance on political indicators, as opposed to performance indices.

Moreover, the financial crisis and failure to advance the company can be also viewed as the manifestation of the situation outlined by the Institutional Failure Theory, which states that inefficiencies within the state institutions develop when there is a lack of alignment between formal and the incentives of actors (North, 1990; Scott, 2014). The two powers of the ministry of Industry, Commerce and Supplies and the factory board established conflicting jurisdictions, which resulted into stagnation in granting procurement approvals, uneven budgetary allocations and administrative orders defeating one another. This type of governance fragmentation undermined internal control systems and did not allow implementing reforms in a coherent way. The frequent wage debts, and debts that are being witnessed in the case of Udayapur Cement Industry Limited prove this theory true, as it demonstrates how ineffective supervision and a lack of accountability creates stagnation in the organization. Another example is of the analogous structural dysfunctions in the Steel Mills of Pakistan and the Sri Lankan state-owned utilities, in which bureaucratic hierarchies discouraged responsiveness and efficiency (Asian Development Bank, 2020; Haque, 2022). These trends confirm that the sustainability of SOEs in the developing economies is mainly due to governance architecture, and not market competition. Therefore, the key to Udayapur Cement Industry Limited reform agenda should be institutional restructuring especially authority clarity, accountability, and autonomy.

The interaction of organizational culture and industrial modernization is also noted in the case of the labor unrest and technological decay that was observed in the study. The disintegration of labor unions due to political reasons led to frequent strikes and wage conflicts which is the manifestation of the lack of unity in labor government. The finding favors the views of the Organizational Culture Theory, according to which the performance in the publicly oriented enterprises is conditional on the shared values, trust, and internal communication (Schein, 2017). In Udayapur Cement Industry Limited, the rivalry between the ideologies of the various unions created hostility instead of cooperation, which interfered with productivity. Similarly, the aging of the equipment implemented in the 1980s without a comprehensive overhaul- evidences technological obsolescence in line with the Resource-Based View (Barney, 1991) that views sustainable competitive advantage as a result of constant renewal of internal capabilities. This has been accompanied by the inability to make new investments in the technology and maintenance systems that have made the enterprise uncompetitive in an industry that is being dominated more by the private players who make use of automation and efficient production that consumes less energy. Thus, the renewal of the organizational culture and technological capacity should be the focus of the revitalization initiative to adjust the relationships between employees and the production process to contemporary industrial norms.

Although these are powerful insights, there are a number of limitations that have been realized in this research. Although the qualitative case study design offers a lot of contextual insight, its ability to generalize results to the other Nepali SOEs is constrained. The use of interview information might have caused subjectivity bias because participants might have interpreted administrative failure in terms of politics or individualism (Creswell and Poth, 2017). In addition to that, this time frame (20142024) of the study might fail to reflect the previous time of policy-reform or changes in industrial performance caused by external economic factors. The next generation of research may have mixed-method features, combining quantitative performance evaluation, longitudinal data, and comparative research with other regional businesses. The results however offer a solid basis on policies. The experience of successful SOE reforms in Vietnam, Indonesia, and India shows that the hybrid system of governance, which implies managerial freedom and state control, can improve accountability and efficiency (World Bank, 2021; Rahman, 2021). To this end, the turnaround of Udayapur Cement Industry Limited needs a strategic restructuring by use of debt-to-equity swaps, focused investment in modernization, performance contract, and board appointments that are not politicized. Through these actions, the business will be able to transform itself into an enterprise that is no longer a politicized and bureaucratized system but is instead a business-friendly, well-planned government property that will add to the industrial self-sufficiency and economic development of Nepal.

Conclusion

It has been identified in this study that structural and governance failures are the underlying causes of the decline of the Udayapur Cement Industry Limited as opposed to the limitation of the external market. The study is able to combine qualitative findings about the views of various stakeholders with institutional analysis to gain an idea of how political meddling, leadership volatility, and inflexibility of bureaucracies interact to undermine efficiency in state-owned companies in Nepal. The research confirmed that institutional design especially clarity of power, autonomy of the managers, and accountability systems are determinants in the performance of industries. It also emphasized the fact that healthy recovery can only be achieved through governance reform, and not financial intervention. The results contribute to theoretical discussion of the Principal Agency and Institutional Failure theories by placing them in the context of Nepalese political-administrative background, which provides a solid framework to analyze the SOE governance. The study is also practically useful as it outlines the ways of reforms revolving around hybrid governance, modernization, and performance-based accountability. Although restricted by its one-case perspective, the study provides a model of diagnostic that can be used to inform broader reforms in SOE across other related sectors. This investigation should also be broadened in future research by comparing and mixed-method research and analyzing the difference in burden of ownership structure and managerial autonomy as it affects performance across industries. The policymakers must focus on structural changes that aim to de-politicize appointments, empower managers, and incorporate the collaboration between the public and the private to increase productivity and competitiveness. Finally, the contribution of the study is the fact that to revitalize the Udayapur Cement Industry Limited, the paradigm shift of the control-based bureaucracy to the performance-based governance is necessary so that the state enterprises turn into the engines of the national industrial renewal and not the agony of inefficiency.

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