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PF: McKinsey
DISCUSSION DRAFT

CHALLENGE OF THE PERMANENT
AND RENEWABLE RESOURCES FUNDS

STATE OF ALASKA

April 25, 1977

McKinsey & Company, Inc.

Memorandum to:

The Honorable Terry Gårdiner
State Representative

In our last meeting at the Baranof, we agreed to write down our thoughts on how we might work together. That is the purpose of this memorandum. After reviewing our understanding of the situation facing the government, it describes the objectives and approach of a joint project to deal with the problem. Finally, it outlines timing and arrangements for our participation.

We hope it answers most of your questions, Terry, and will serve as a basis for moving forward. As we have said, the critical thing is to find the right fit between what you see as Alaska's needs and what we think we do well. If we do find that match of needs and skills, which is what we are trying to describe in this proposal, and if you, the other legislators, and the Governor's office feel we can help, we would be delighted to work with you. (In fact, several of our consultants have already expressed strong interest in the problem and in working in Alaska.)

We are optimistic, of course. The moneys involved in the Permanent Fund and the Renewable Resources Fund are potentially so large that good planning now is especially important to reduce the risk of later waste - or loss.

THE PROBLEM

Last November, Alaska voters authorized a constitutional change establishing the Alaska Permanent Fund. This legislation places a 25 percent levy on oil and other minerals removed from Alaska; current estimates are that the Fund will approach \$2 billion by 1985, taking into account only existing leases. In addition, a Renewable Resources Fund has been proposed. This fund will levy an additional 5 percent on oil and minerals and thus could generate \$400 million more by 1985.

Your subcommittee of the Legislature must draft implementing legislation for both the Permanent Fund and the Renewable Resources Fund by December of this year and the middle of next year, respectively. A good job could have a substantial positive impact on the State's future development, measured economically or in terms of lifestyle. A poor job risks repeating the disappointment felt when the state's initial oil money ran out.

Obviously, the success of the new laws (and the Funds themselves) hinges on the subcommittee's interpretation of the constitutional change, the way in

which this interpretation is translated into objectives for both Funds, and the choice of day-to-day guidelines for managing and investing the funds. Hard questions abound:

1. What constitutes "investment"? Is an investment something that is managed in a strictly fiduciary way for relatively fixed income at low risk (and if so, how does this help the Alaskan citizen)? Could investments provide a way to lower general tax burdens - or increase the long-term tax base? Or should investment include expenditures that will improve the quality of life in Alaska long term, or enhance renewable resource development? And, with regard to both Funds, what constitutes "renewable resources"? Are people included?
2. What kinds of objectives ought to be set for both Funds? Should certain investments be mandated and others prohibited? Or, should the choice of investments be delegated to an ongoing public organization, with only a few broad guidelines? Should limits be placed on the long-range commitments that current or future governments could make, in order to preserve some flexibility for subsequent governments? Should the new laws try to define what investments ought to accomplish, as well as their specific nature?
3. Once an industry or other activity is picked for investment, what is the best approach? For example, if commercial fishing has a high priority, should the State invest directly in hatcheries? If not, should it develop incentives for private investment? Or, if a high priority were assigned to the elimination of alcoholism, what parts of the chain from prevention to cure ought to be attacked and how should the effort be structured to make best use of Alaskan resources vis-a-vis those of the lower-48?
4. What structure(s) should be established to manage the Permanent Fund and the Renewable Resources Fund? What agencies or committees should oversee them? How many people will be needed to manage the Fund? What skills will they need and what should their organization look like? How should they plan, set goals, and measure performance?

Perhaps we can sum up the problem this way: You want to ensure that the Funds do not become ends in themselves but rather help facilitate what seems best for Alaska overall. In other words, although it is difficult, you want to try to manage the Funds in synchronization with State priorities. The

difficulties in accomplishing this arise from a variety of sources. They are worth noting because they affect the approach you take and the likelihood it will be successful.

One is that Fund objectives, let alone clear State priorities, may prove exceedingly hard to pin down. Groups much smaller than the Alaskan population have trouble reaching - or expressing - a consensus about goals. Even academics disagree about the usefulness of efforts to articulate group values explicitly. It often proves easier to get specific proposals accepted than to seek agreement on the underlying reasons for the proposal. For example, it might be considerably easier to gain support for a specific investment in fisheries than for a single set of objectives that dictates investment in fisheries or other areas. People can follow a common course of action without a common reason for it.

Further, as you know well, political consultations often bog down when forced to deal with issues this broad. Jim March at Stanford University would call a program with the scope of the ones you are considering an automatic "garbage can." That is, any - and possibly every - special interest group in the State will be tempted to use the process adopted for developing objectives as an occasion to press their particular concerns. Few could be screened out automatically. Your subcommittee will have to sort through a plethora of irrelevancies, aggressively (and time-consumingly) presented.

You also will find that the facts you would like to use to guide your deliberations are elusive. Even if you can adequately describe the problem, actions for coping with it may not seem obvious. Many superficially attractive options might prove self-defeating in the long term. For example, some kinds of short-term progress in improving life styles might lead to a longer term degradation by attracting too many new people to Alaska. Or, Fund investments might simply replace private investments that would have taken place anyway.

PROJECT OBJECTIVES AND APPROACH

The overall objective of our project would be to help you make sure the particular attention both to the questions listed above and to the difficulties in answering them. While we certainly would not expect to answer all of them completely, we would hope that through concentrated analytic work and a great deal of attention to group discussion and communication, we could make substantial progress and help avoid costly mistakes.

The approach we currently envisage would have us concentrate our resources heavily in two related areas:

- § Helping you determine the best objectives, policies, organization, reporting relationships, management processes, and the like for the management of the Permanent Fund and the Renewable Resources Fund in order to help you draft the most appropriate implementing legislation.
- § Helping you understand how moneys might be invested by taking a specific area of public concern - perhaps a social goal or a specific renewable resource industry - and factually examining the alternatives for investment to determine what might be expected at various levels of funding.

Our reason for proposing help in the first area is that it responds most directly to your immediate needs and we as a Firm have substantial experience in how things are best planned, organized, and managed. Our reason for suggesting the latter area is that it should prove useful to be concrete about a specific investment alternative in determining how investments should be studied and approached. It should help you anticipate specific problems and opportunities in your immediate task of drafting implementing legislation and will help all of us understand how specific investment questions should be addressed.

In a moment, we will talk about some of the techniques we would employ in tackling a specific area. We would, incidentally, expect results of this work to be useful per se - not simply as a model of how to analyze investments. While the Alaska Forum does not identify a single "most critical" issue with respect to the State's future, it does identify a number of issues that are viewed by all as important. Presumably, a project dealing with any of these could make a valuable contribution to the State.

The specific steps we would follow in the first several months of the project include:

1. Interviewing a selective sample of people from the Legislature, the Governor's office, and other government departments to solicit their ideas and suggestions about the organization of the project, its goals, and the nature of its end products.

2. Organizing our own task force efforts as well as those of support groups. This would include such activities as:

- a. Developing a detailed plan for our own study efforts (which we would review with you during the first several weeks of the project).
- b. Forming a steering committee for our project and for reporting results; this group probably would include your own committee members plus others from the Senate and the Governor's office in order to ensure the broadest possible support for the project and its recommendations.
- c. Identifying team members to add to our task force from Alaska public sector employees (for example, your own research staff) and determining how these people can be best used outlining the main alternatives for goals, policy, organization, and management of the Permanent Fund and Renewable Resources Fund. Our sources for identifying these alternatives would include:
 - Interviews with thought leaders in Alaskan government and the private sector, both individually and in group sessions such as the one we had at the Gruchning cabin
 - Results of public opinion surveys, Public Forum discussions, and other work on determining goals for Alaska
 - Discussions with our own people who have had experience on similar work (such as that which we did in Tanzania, Labrador, and Saudi Arabia, and are now doing for Surinam and the State of Michigan*), and with academic and public sector experts throughout the United States
 - Other studies that have been or are now being conducted that concern recommendations for the management and use of both Funds (e.g., Brookings, Price Waterhouse, White "eld).

* - The Attachment gives a more detailed description of these and similar studies.

3. Analyze in depth (and here is where much of the work comes in) the implications of (a) each major Fund's policy alternative and (b) each Fund's management and organization alternative.
4. Pick one area for potential investment - perhaps a renewable resource industry - from among the obvious possibilities (e.g., fishing, agriculture, forestry) and analyze the alternatives for investing in this industry.

Since project success depends primarily on the last two steps, we would like to describe them in more detail. We call one approach we would use "mapping." An example is presented in Exhibit I. Stated simply, what we would do is to show the implications of the various alternatives for managing the Funds with regard to the most important criteria for choosing between them. For example, one such criterion might be how well various schemes for managing the Funds would respond to State goals, especially as priorities (or your understanding of State priorities) change over time. Exhibit II lists a variety of criteria that might be applied to issues of Fund objectives and management in general, as well as criteria for evaluating specific investment alternatives.

As another aid to understanding the trade-offs that must be made among various criteria, we would develop a variety of "choice grids." Several examples are presented in Exhibit III. While a single grid can address only two criteria at once (such as "expected economic gain" versus "risk"), the exhibit shows how grids may be related to one another to address a series of complex issues.

After completing the steps we have outlined above, we would pull our analyses, findings, and conclusions together in the form of a slide presentation which we would review with the steering committee and other groups. As modified by the outcome of these sessions, this visual report could be turned into a written document for discussion and circulation among the Alaskan public.

What we would do next would depend heavily on the outcome and usefulness of our initial accomplishments. In any event, we probably would pause at this point to allow plenty of time for communication and feedback on what we had done so far. In a project of this type, which involves so many constituent groups and, ultimately, the entire Alaskan public, there is a critical need for plenty of communication, discussion, and feedback.

In fact, our initial work plan would stress speed and broad coverage, even at the cost of thoroughness, in order to move to useful discussions as quickly

as possible. In general, we have found that it is best to tackle problems of this complexity iteratively rather than strictly sequentially. That is, we prefer to cover a lot of ground, discuss it, and then cover the same ground in more detail only as needed rather than try to solve the problem completely through a one-shot analytic effort without intermediate feedback. (In theory, we could get intermediate feedback either way. We have discovered, however, that people respond more usefully to a fuzzy but complete picture than to crystal-clear details - i.e., detailed individual problem steps - taken out of context.)

In any case, before we undertook further active analysis we would want to slow our involvement and change our role from that of analyst to communicator and facilitator. If what we have done seems useful to you and the rest of the steering committee, we could then decide what further steps we should take together. This would include analyses of other investment alternatives or the refinement of plans and systems for managing the two Funds. In addition, we would hold ourselves available (as would also be the case in the course of our initial work) to provide what help we can in related problem areas - e.g., acting as facilitators in discussion groups on Alaskan goals, advising on State planning processes, and helping draft implementing legislation.

END PRODUCTS

The question is what will you and other Alaska leaders get from this? We cannot decide for you how the Funds should be managed or what a specific approach to renewable resources ought to be. However, we can help you and others understand the implications of various alternatives on a more factual basis than you might otherwise have. Understanding those alternatives and their implications ought to help enormously in choosing among them and drafting the appropriate legislation. All of our work will result in reports and presentations which should help the communication and dissemination of the alternatives and/or the approaches judged to be best.

As we said before, the major payoff from study now is the avoidance of waste or disappointment later. Our experience across a broad range of industrial and government fields indicates that once a capital decision is made its basic course is charted. The best "good management" later on can do is to make modest mid-course corrections. Investment in study and deliberation now ought to yield real benefits later.

TIMING AND ARRANGEMENTS

We would be available to start the study whenever you like, with about a month's advance notice. If it seems convenient, we would suggest starting sometime in early June.

Barry Roach and Bob Waterman would direct the study. Together we would spend the equivalent of about half time on the project. In addition, we would be assisted by two associates and one researcher working full time on the project.

We estimate the fees for the project will average about \$40,000 per month. In addition, we are reimbursed for out-of-pocket travel and report production expenses. On a study of this kind these expenses should run about 20 percent of fees.

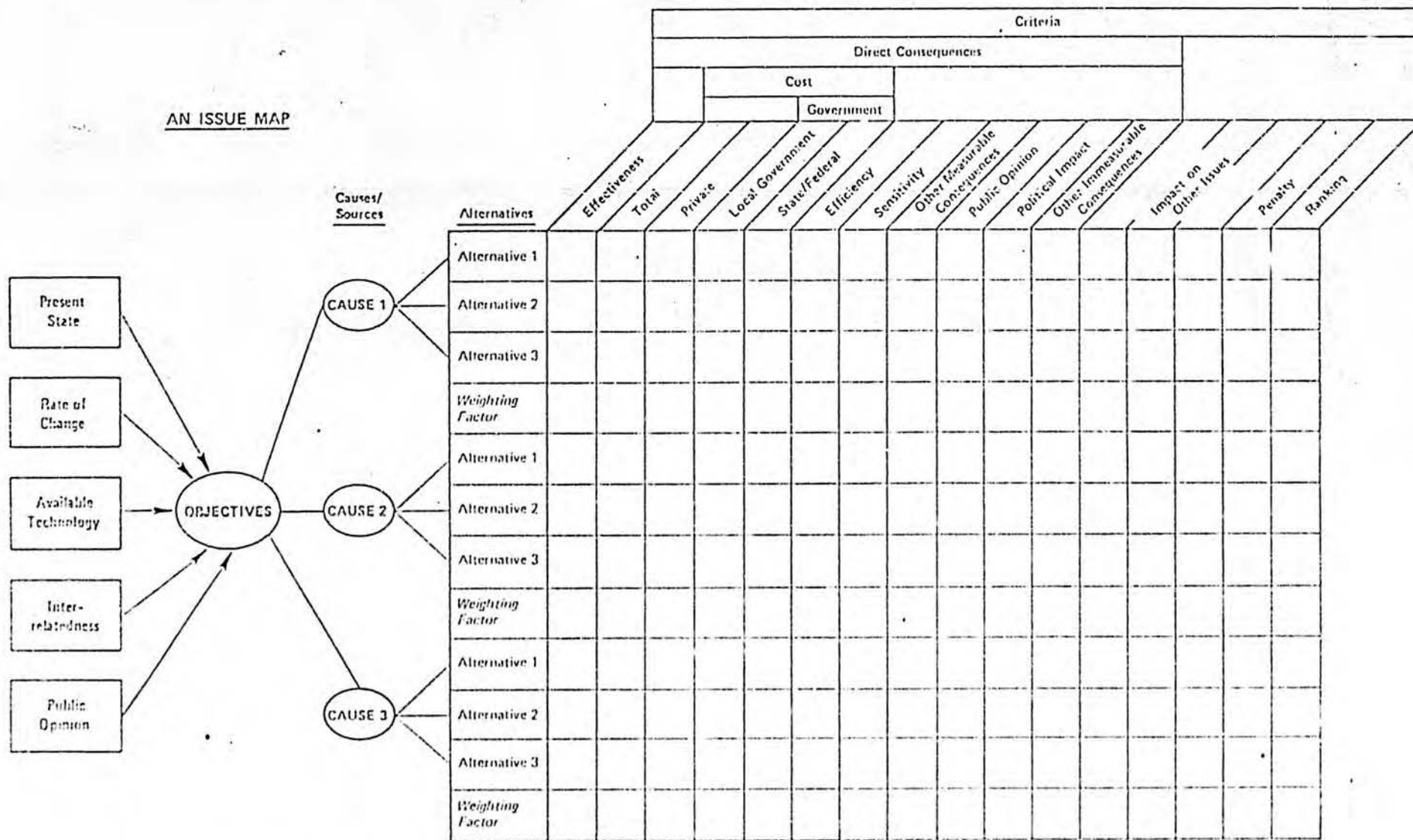
We would hope that you and/or the Governor's office could supply some full-time staff support for our project work. While this support would not materially reduce the cost of the project, it can improve its overall effectiveness in two ways. First, it extends our own ability to collect data and information. Second, it leaves behind people with full knowledge of what we have done who can assist with implementation and potentially lead other projects.

You and others raised the question on conflict of interest. As we have said, we are self-owned and not engaged in any other business except consulting. No members of our staff serve on corporate boards of directors. As a matter of policy we do not give out lists of private clients we have served, since many want to keep their relationships with us confidential. However, we can answer your questions about whether our Firm has any relationship of more than \$250,000 with ARCO, BP, Sohio, Exxon, or Mobil; with El Paso, Tenneco, or Southern Natural Gas; with Louisiana-Pacific or Alaska Lumber and Pulp; or with any of the Native regional corporations. We do not; we served one of the oil companies out of our New York office, but that relationship terminated 5 years ago. Our most recent client in Alaska was a bank which we have not served for over 6 years. We will, of course, advise you should we enter serious discussions or establish a relationship with a client whose specific interests impinge directly on those of the State of Alaska.

We are very enthusiastic about the project if you believe we can be helpful. We have some people on our staff who are particularly interested and we think will do an excellent job for you. Our prime concern is our ability to serve you well.

April 25, 1977

AN ISSUE MAP



Perspective on the Issue

Analysis of the Issue

POSSIBLE ISSUE ANALYSIS CRITERIA

Fund Management

Size and scope of investment task

- Number, size, and complexity of decisions
- Impact on development
- Impact on tax base or tax policies
- Required investment analysis and management skills

Opportunity for proactive development of new investment guidelines or investment proposals

Responsiveness to governmental direction

- Executive
- Legislative

Ability to match revenue receipts with investment expenditures

Ability to guide delegated investment decisions in terms of

- Return versus risk
- Magnitude
- Time commitment
- Management

Availability of fund performance and control information

Required staff size, organization, experience, and expertise

Administrative costs

Political feasibility

Managerial feasibility

Investment Approval

Conformity with existing goals and legislation

Investment size

- Minimum target
- Maximum target
- Range of uncertainty

Percent investment spent within State

Direct and indirect investment returns and timing

- Quantifiable economic return
 - Public
 - Private
- Quantifiable noneconomic return
- Qualitative factors

Likelihood, impact, and dimensions of failure

Required associated expenditures

- Federal
- State
- Local
- Private

Impact on alternative investments (current or subsequent)

- Public
- Private

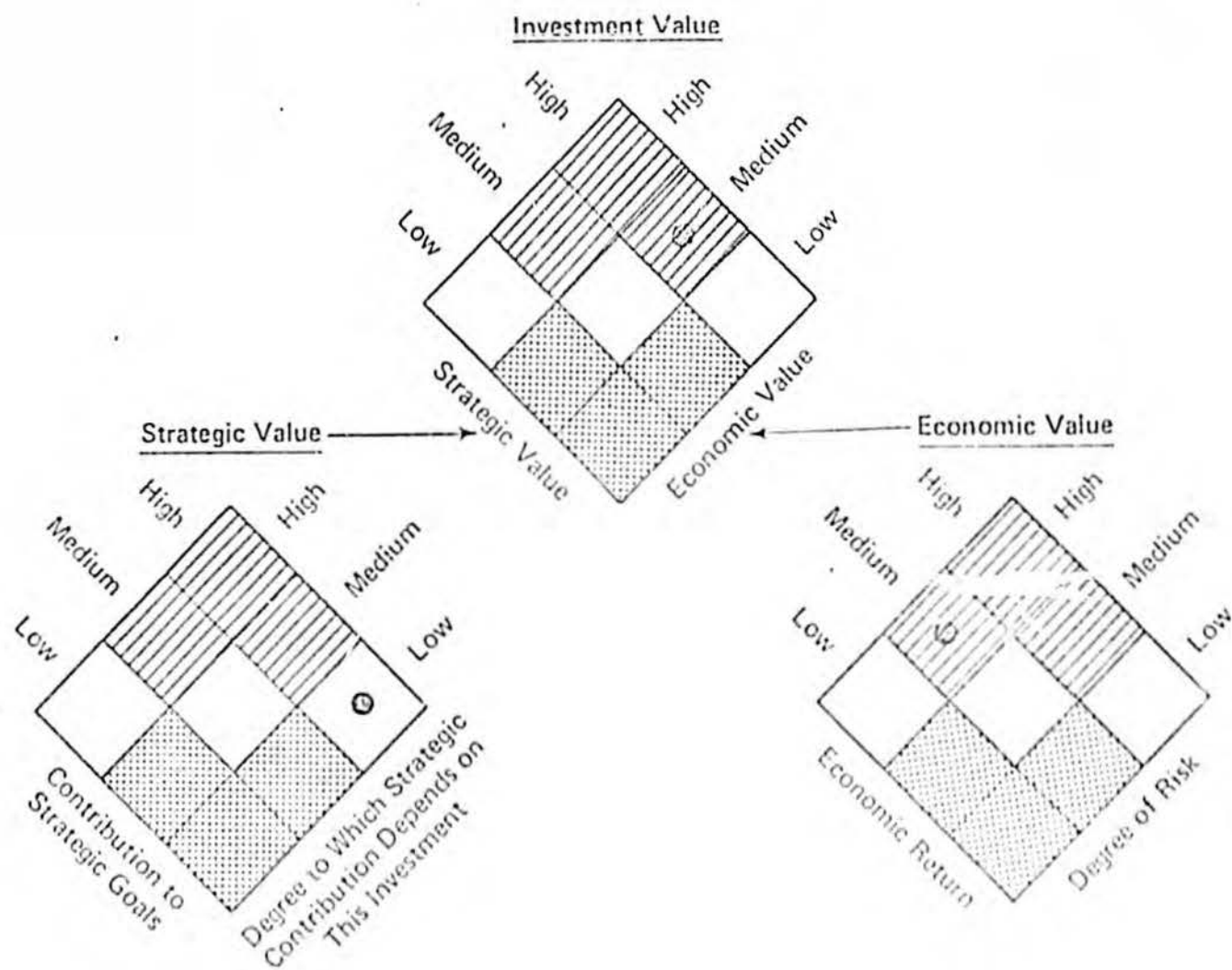
Political impact and feasibility

Environmental impact

Uniqueness of fund contribution

EXAMPLE USE OF CHOICE GRIDS

 High
  Medium
  Low



McKINSEY & COMPANYTHE FIRM AND ITS WORK

McKinsey is an international professional firm that specializes in top management problem-solving and program implementation. Our function is to serve clients around the world as an instrument of constructive change, improvement, and adaptation. Founded in the United States more than half a century ago, our Firm has been shaped into what we believe is a distinctive organization with no close parallels in practice, staff, or clientele.

Our 22 offices located in 12 countries serve businesses, governments, and other organizations in most of the major industrial nations and in some developing countries. Although each office is oriented toward local culture and management practices, all share a common philosophy, draw on a common base of experience and expertise, and observe the same exacting standards in quality of work, caliber of staff, and professional approach.

It is our policy to undertake only those studies that involve significant problems or policy issues in areas where we have real competence and which can be solved within the scope of the assignment. And we are committed to producing useful results for the clients we serve on time and within budget.

In this attachment, we briefly describe our Firm in terms of our structure and resources, our approach to solving client problems, the characteristics of our public sector practice, and some specific examples of recent work in economic development.

STRUCTURE AND
RESOURCES OF THE FIRM

Wholly owned by an internal group of some 120 directors and principals of diverse nationalities, the Firm employs more than 500 full-time professional consultants, backed by a similar number of researchers, analysts, administrators, and other support personnel. Through self-ownership, McKinsey remains rigorously independent, answerable for performance only to our clients and ourselves.

All members of our professional consulting staff are university graduates, and the majority also hold advanced degrees in management or a related discipline. Many are chosen from among the ablest men and women completing work at leading graduate schools in the United States and Europe; others have

joined us after outstanding early achievement in business, government, or professional life. In keeping with our professional dedication to constructive change, our staff selection criteria stress qualities of character and interpersonal skills as well as superior technical qualifications.

All of our consultants receive extensive formal training, beginning with a full-time introductory course for new consultants and continuing with regular training meetings throughout the year. All McKinsey consultants, moreover, are subject to a continuous process of performance review to assure that none but the best-qualified candidates are employed as professionals and that only the most promising among those are retained for positions of increasing responsibility. Seniority in McKinsey thus correlates directly with achievement and career commitment.

The functional disciplines commanded by our staff are too extensive to be described in detail here. However, they include facilities planning; strategic planning; management information and planning and control systems; organization design and evolution; management of technology; marketing and distribution; computer systems; manpower management; behavioral science; operations research and computer simulation techniques, including systems analysis and risk analysis; production control; logistics; cost reduction; and the improvement of economic results.

McKinsey serves or has served a majority of the world's 100 largest industrial companies, many of the largest banks and insurance companies, and government departments and agencies in the Americas, Europe, Asia, and Africa. Approximately half of the Firm's present clients are industrial companies. Financial institutions and other private enterprises make up another quarter; and the remainder comprises government agencies, publicly owned enterprises, and nonprofit institutions.

PROBLEM-SOLVING APPROACH

Although our expertise covers the full range of modern management techniques, we do not consider that our success has been due primarily to our theoretical and technical proficiency. Rather, it springs from the unusually close and fruitful rapport we have been able to establish with our clients - our ability to identify our goals with theirs and to work in harmony with them to achieve the desired results quickly and effectively, without disruptive effects on the organization.

McKinsey consultants normally work in teams, relying heavily on the combined benefits of multiple skills and experiences. These small teams of professionals are in turn supported by supplementary research and specialist

personnel as required. Each office can and does call on the resources of the entire Firm to provide the best possible mix of skills and supporting services for any particular assignment.

Every engagement team is led by a director or principal, who takes a major part in defining the assignment and personally participates in every phase of the study: fact-finding, analysis, formulation and testing of hypotheses, development of recommendations, and implementation. Throughout, he maintains constant contact with client executives to keep them informed of the progress of the study (which may also be recorded in periodic written reports). Strict confidentiality is, of course, observed in every aspect of our client relationships unless the client wishes to authorize disclosure for reasons of his own.

On many of our studies, client personnel participate as full-time team members - with several important benefits. First, the efforts of our own consultants are multiplied, assuring the client of a higher return from his investment in our services. Second, specialized skills from within the client organization can often effectively complement our own expertise. Third, the personal commitment developed by the client managers involved facilitates quick and effective implementation. And finally, the training received by client personnel can be of future value to the organization, particularly when the project can later be duplicated in other divisions by managers working on their own. It should be emphasized, however, that in spite of this close relationship, we take full responsibility for our recommended actions.

Although the problems and policy issues we are asked to address are often complex and theoretical, we are dedicated to developing concrete, workable solutions. Thus, we gear our recommendations to meet specific needs in a practical way, and in fact measure our results in the significance to our clients of the positive changes generated. For these reasons, McKinsey's role often extends to assisting in the implementation of recommended programs or decisions. As a matter of policy, we follow through on our work as appropriate to ensure full client benefits are obtained and to propose adaptations to meet varying operating conditions.

CHARACTERISTICS OF OUR PUBLIC SECTOR PRACTICE

In our Washington office, which provides Firmwide leadership in our public sector practice, we have extensive background in the development and organization of large-scale programs for clients in public enterprise. Our Firm has served virtually all major departments and agencies of the Federal Government,

a wide range of government-sponsored private corporations, and a large number of state and local governments. (The attached exhibit provides a summary of our public sector experience.)

In recent years, we have gained a wealth of experience in assisting organizations and agencies at the state and local government levels to design and implement management improvements in the areas of organization, planning and control systems, management information, financial management, personnel administration, operations management, systems and procedures, EDP, and policy/program evaluation. Our work has included all of the major departments and activities within the purview of state and local governments, with emphasis in the areas of general public administration, transportation, health and welfare, housing, finance, education, and the environment.

Examples of our work for state and local government agencies include a complete reorganization of the city government in Richmond, Virginia; the start-up of a combined rail and bus rapid transit system for the Metropolitan Atlanta Rapid Transit Authority; a series of studies for the State of California Division of Highways and Department of Transportation involving planning and control systems, operations management, organization, and program development; start-up work for several major health care organizations; and the establishment of a Bureau of the Budget in the State of Illinois.

In work for the Federal Government in the past few years we have: (1) provided start-up assistance in organization and management processes to the Federal Energy Administration; (2) overhauled the grant and research management processes of the Department of Transportation; (3) carried out a massive policy/program evaluation effort for the Veterans Administration; (4) provided start-up and information systems assistance to the U.S. Price Commission; and (5) carried out a variety of studies - encompassing systems development and implementation and policy evaluation - for the Department of Housing and Urban Development.

McKinsey's other offices are also involved in serving the public sector. Our London office, for example, has served several ministries of the British Government, as well as the General Post Office, the nationalized British steel industry, and the Bank of England. Our government practice has been similarly broad in France, the Federal Republic of Germany, and The Netherlands.

Though our public practice chiefly deals with governments in those countries where we have offices - North America, Western Europe, Australia, and Japan - a significant portion of our work in this area is with organizations in other countries. For example, in Tanzania we have carried out a series of

assignments at the national government level and for the key government corporations responsible for directing that country's manufacturing, processing, and trading enterprises. In two North African countries, we have worked extensively with two major nationalized industries, as well as with the government ministries responsible for overseeing their activities.

We have also served many international organizations, including the International Bank for Reconstruction and Development (the World Bank), the United Nations Development Programme, the UN Secretariat, UNESCO, and the International Labor Organization.

EXPERIENCE IN ECONOMIC DEVELOPMENT

We believe our broad public sector practice gives us the perspective for sorting out appropriate roles for government relative to business and for understanding the constraints within which government must operate. This combination of familiarity with all levels of government and our in-depth understanding of business economics and profitability gives us particular strength in the area of economic development. We do in fact have extensive experience in this area, and summarize several of our assignments below.

- 1 U.S. Department of Commerce. We have conducted a series of studies for the Department of Commerce to help the U.S. Government do a better job of sharpening its national and international economic policies to meet national objectives in trade and investment. One important study in this series was the development of a new approach to export expansion for the Bureau of International Commerce. We also conducted a study to develop and implement a program for evaluating the competitive position of U.S. industries in world markets and for modifying government policies and programs to improve that position. In subsequent studies, we conducted detailed studies of the competitiveness of the U.S. tire industry and the aircraft industry and developed recommendations to strengthen their competitive positions.
- 2 British Steel Corporation. Faced with the prospect of reducing employment by about 60,000 jobs as a result of a multi-billion dollar capital investment program, the organization asked us to assist in structuring a job creation program to offset the negative effects such a move would have on the already ailing British economy. As part of this effort, we identified industries which might require similar skills and which might be suited to growth in the locations where

the modernization was occurring. The overall effect of the program was to assist regions of the country in lessening their employment dependency on the steel industry.

- ¶ Government of Tanzania. We have conducted a series of important studies to help this African country define and achieve its economic development goals. In the first phase, we reviewed the government's economic growth plans and objectives and made several important modifications. Second, we conducted a fundamental reorganization of the government - with particular emphasis on the Ministries of Finance, Economic Affairs, Commerce and Industry, and Manpower - to ensure that the infrastructure would adequately support achievement of the objectives. Third, we helped ensure that the State Trading Corporation, which controls all import operations and wholesaling and distribution, was structured to support national economic policies. Fourth, we assisted in developing the plan to move the national capital from Dar es Salaam to Dodoma; an important part of our work here was an analysis of the economic advantages and disadvantages of such a move. Fifth, we reviewed the government's policy of "ujaamization" (the development of separate economically viable communities) to determine any potential conflicts with national economic development objectives.
- ¶ Saudi Arabia. We are currently assisting the Saudi government in an effort to reorganize and strengthen the domestic government to support economic development. Part of our work involves defining the relative roles and relationships between the national government and the local governments in light of specific development objectives. Particular attention is being directed towards the development of the essential governmental infrastructure. In addition, we are developing a planning process to help ensure that resources are properly allocated to facilitate accomplishment of development objectives.
- ¶ Pennsylvania. We conducted a major review of Pennsylvania's total tax structure as part of an overall tax reform effort. In that study, we helped the State develop a tax structure which would be conducive to economic growth and assist in the attraction of industry to Pennsylvania. We performed numerous economic forecasts and helped State officials to position the tax structure in its proper perspective within the State's economy. We also suggested other areas where the State could improve its posture for economic growth.

- § New York State. Over the years, we have assisted the State on several studies designed to help improve the State's overall economy. For example, we helped develop an improved planning and budgeting system which recognized the cyclical effects of income and expenditure based on State economic conditions. The information system we developed helped State officials plan programs and responses better suited to the current economic conditions.
- § Atlanta. We conducted two important studies for the Mayor, both related to economic development. First, following a charter revision, we helped organize the Department of Human and Community Development, the department which was responsible for city-wide economic development. In addition to recommending how the economic development function could be organized, we suggested ways to increase its effectiveness by giving it more visibility in the Mayor's office. In a second study, we assisted the Mayor in organizing his immediate office. An important part of this study was geared to increasing the Mayor's effectiveness in dealing with economic affairs and business relationships.
- § Michigan. We worked with the Michigan State Department of Commerce to see how government financial activities, broadly conceived, might be changed to support the State's economic stability and growth; for example, using State incentives to attract growth-oriented, non-auto industry to Michigan. The study ranged broadly into areas such as the following: identifying and examining key intrastate municipal programs and policies; evaluating current programs in light of their impact on economic development; developing more effective State financial policies and programs to encourage economic development; exploring budget stabilization and countercyclical fiscal policy; and assessing the feasibility and desirability of specific incentives to reduce unemployment.
- § Labrador. We developed a series of programs to improve economic, educational, and health care conditions as part of an overall development strategy for the South Coast of Labrador. This effort involved conducting extensive field research to develop a comprehensive understanding of the motivations and wishes of the local population; encouraging government involvement at local, district, provincial, and federal levels; and evaluating development alternatives and selecting the most cost-effective solutions consistent with preserving social values. A major end product was a strategy for modernizing and expanding the fishing industry to capitalize on new developments, while preserving the independence of local fishermen.

- ¶ Export Development Fund of Portugal. Somewhat related to our work in Labrador was a study to develop a strategy for restoring the viability of the Portuguese fish-canning industry. In this case, our priorities were to improve export marketing performance; increase profitability by improving canning operations and product mix; and introduce new approaches to fish supply, allocation, and pricing. Because of the highly fragmented nature of the industry and a strong inherent resistance to change, it was important to structure roles to enable the government and regulatory agencies involved to take an active, innovative part in carrying out problem solutions.
- ¶ Surinam. Because of deteriorating performance during the last few years, we were asked to assess the viability of a joint venture between the government of newly independent Surinam and a large forest products company. The venture was troubled by inefficient production levels, marketing and management problems, and the overall lack of know-how and leadership capabilities facing most developing countries. Accordingly, our task was to develop profit-improvement programs for the entire company; define strategic directions for the medium-term future; propose an organizational structure; and assess the company's overall position in the forestry industry of Surinam.
- ¶ Great Britain. We assisted the National Economic Development Office (which reports at the Cabinet level) in an analysis of petrodollar recycling and the medium-term impact of possible changes in world trade patterns on industrial exports. Versions of the final report were also presented to the Ministry of Foreign Affairs in France and the Minister for Economic Affairs in Holland.

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This description of McKinsey & Company indicates in only a general way the services that we offer our clients. Our basic aim is simple: to provide all our clients, whether public or private, with the most sophisticated and effective management counsel possible and to do so at a consistently high standard of quality. The aim is simple, but its achievement is not. We believe, however, that we have made much progress toward this goal, and we are continually reexamining our own organization and management processes to ensure that this progress will continue.

HIGHLIGHTS OF MCKINSEY DOMESTIC PUBLIC SECTOR PRACTICE

TYPE OF CLIENT	CLIENTS SERVED
STATE GOVERNMENT	California - Business and Transportation Agency - Department of Finance - Department of Public Works - Department of Social Welfare - Department of Transportation - Office of Management Services Connecticut - Department of Environmental Protection Georgia - Department of Revenue Hawaii - Hawaii Housing Authority Illinois - Bureau of the Budget - Department of Transportation - Housing Development Authority Massachusetts - Executive Office of Human Services - Select Committee on Higher Education Michigan - Port Authority - Public Service Commission - State Housing Development Authority - Transportation Commission New Jersey - Department of Community Affairs New York - Department of Education - Department of Labor - Division of the Budget - Employees Retirement System - Higher Education Assistance Corporation - Insurance Department - Teachers Retirement Board North Carolina - Department of Human Resources Ohio - Department of Urban Affairs Pennsylvania - Office of the Governor Rhode Island - Council for a Better Rhode Island - Office of the Governor Texas - Office of the Governor Virginia - Division of ADP - Division of the Budget - Housing Development Authority Wisconsin - Tax Department

HIGHLIGHTS OF MCKINSEY DOMESTIC PUBLIC SECTOR PRACTICE
(Continued)

TYPE OF CLIENT	CLIENTS SERVED
LOCAL GOVERNMENT	Atlanta Metropolitan Atlanta Rapid Transit Authority Office of the Mayor Dallas - City of District of Columbia Department of Human Resources Health and Welfare Council National Capital Housing Authority Office of the Mayor-Commissioner Fairfax County, Virginia Los Angeles Departments of Airports Department of Water and Power Montgomery County, Maryland New York Board of Education Bureau of the Budget City of Department of Hospitals Environmental Protection Administration Finance Administration Fund for the City of New York Housing and Development Administration Model Cities Policy Committee Oyster Bay, Town of Regional Planning Association Temporary State Charter Revision Committee Philadelphia - Model Cities Administration Richmond City of Regional Planning District Commission Tax Study Commission San Francisco City and County of Public Utility Commission
EXECUTIVE OFFICE OF THE PRESIDENT	Cost of Living Council Office of Civil and Defense Mobilization Office of Management and Budget Office of Science and Technology President's Advisory Council on Management Improvement President's Commission on Personnel Interchange Price and Wage Stabilization Board U. S. Price Commission

HIGHLIGHTS OF MCKINSEY DOMESTIC PUBLIC SECTOR PRACTICE
(Continued)

TYPE OF CLIENT	CLIENTS SERVED
FEDERAL CABINET DEPARTMENT	Department of Agriculture Department of Commerce Department of Defense Department of the Air Force Department of the Army Office of the Secretary of Defense U. S. Air Force Systems Command U. S. Army War College Department of Health, Education, and Welfare Food and Drug Administration National Institutes of Health Office of Education Department of Housing and Urban Development Department of the Interior Department of Labor Department of the Treasury Internal Revenue Service Department of Transportation
INDEPENDENT AGENCY	Atomic Energy Commission Equal Employment Opportunity Commission Federal Energy Administration Federal Reserve System National Aeronautics and Space Administration National Commission on Productivity National Labor Relations Board Office of Economic Opportunity Peace Corps U. S. Civil Service Commission Veterans Administration
GOVERNMENT-SPONSORED CORPORATION	Communications Satellite Corporation Federal National Mortgage Association National Center for Housing Management National Railroad Passenger Corporation (AMTRAK) U. S. Postal Service United States Railway Association

Brian
Rogers

McKinsey & Company, Inc. 555 CALIFORNIA STREET, SAN FRANCISCO, CALIF. 94104

March 22, 1977

Dear Terry:

It was good to talk with you today. As I mentioned, we will complete the memorandum outlining our ideas on how to proceed this week, and get it in the mail next Monday.

I'm glad you found the Surinam material useful, particularly the cottage industry focus. Our Amsterdam Office is sending over some more details, like the charter of the commission, some of the enabling legislation, and related material.

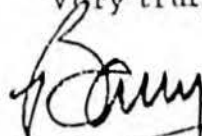
Enclosed with this letter is the report on the future of Britain's automobile industry which we did for the Central Policy Review Staff. Bob and I thought you might find an example of our work useful.

I hope the public communication and information approach is well in hand after this Saturday's meeting; we look forward to reading the material, along with John Williams' summary of the goal-setting sessions.

As you asked, we will send on the memorandum and touch base when I get back from Surinam April 4. Please call Bob or leave word with my secretary, Roberta, if you want to discuss anything sooner.

I talked with Bob; his reaction to your report on the snow was the same as mine: "you really know how to hurt a guy." We'll be in touch soon.

Very truly yours,



Barrett B. Roach

Enclosure

cc: Bob Waterman

The Honorable Terry Gardiner
State Representative
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

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The Statsföretag Story

Sweden and the World

Sweden, with a population of no more than 8 million, has always been an active participant in world affairs and receptive to new ideas and developments. At the same time, this has been balanced by a rather cautious individualism that has kept outside influences somewhat at arm's length while her people work things out their own way. There was one influence, however, over which the country had little or no control. This was the Industrial Revolution which, when it came, suddenly transformed what had been for generations a largely rural society into a highly industrialized state almost within the course of a single lifetime.

Within a few decades, change swept over Swedish society and where once people looked to the farm for their livelihood, they turned increasingly to their vast natural resources — quantities of high grade iron ore, endless forests, and, above all, water for power. Swedish engineers and technicians employed these resources to advance the country's technology which, in turn, developed products and services that have found markets in every corner of the world, all bearing the Swedish hallmark of precision and quality.

But Sweden cares for more than the products her industrial plants ship to the markets of the world. She cares also for the people who make them, for the quality of life and the environment in which they are produced. Sweden recognizes that a society where human expectations are frustrated is one that can produce little lasting value, either for itself or for others.

The Swedish Economy

Some call it a controlled economy. Some call it socialism. But a country where more than 95 per cent of all production remains in private hands can hardly be considered to be very socialistic. It is true that, in Sweden, the government controls a number of functions and reserves for itself the responsibility of operating certain public utilities, such as the telephone system and the railways. At the same time, because of a combination of historical accident and economic necessity, the government today also finds itself the owner of a number of commercial ventures that compete directly and on the open market with private enterprise, through an unusual industrial and social experiment known as the Statsföretag Group of Sweden.

The Statsföretag Group

The Group does not enjoy the advantage of occupying a government-protected monopoly, or even a near-monopoly situation in any of its businesses, nor can it look to any special privilege simply because of its relationship to the state. In these respects, it is no different from any other enterprise trying to win a place for itself in world markets.

In other respects, too, the Group does not at first appear to be radically different from other large industrial, multi-product companies. In common with many of them, it is characterized by a wide range of technological achievement, international marketing experience, and highly selective management skills. By any standards it is sizeable, with assets of more than \$2 billion and, in 1974, total revenues and profit in excess of \$2 billion and \$250 million respectively. The companies within the Group are solidly established in such diverse activities as mining, steel making, shipbuilding, and forest products, all areas in which Sweden's position is internationally acknowledged. At the same time, other Statsföretag companies have developed strong capabilities in some of the newer technologies, such as the petrochemical industry, the design and construction of nuclear power plant components, numerically controlled

machine tools, electronics, communications equipment, specialized pharmaceutical products, and educational systems.

The fact that the Group is government-owned is not, by itself, a particularly unusual circumstance in the world today. But once these similarities with other international industrial groups are noted, further comparison becomes difficult, for Statsföretag has no model. It is a totally new and previously untried attempt to fuse traditional commercial concerns with certain nationally perceived social needs, but not in the usual benevolently vague way such undertakings are so often managed. It is meant to operate in these two areas in an accountable, measurable and effective fashion. As such, it is an industrial and social experiment — unique unto itself and, at the same time, uniquely Swedish — that has begun to prove itself after five years of trial.

The Government's Role in Business

Before 1970, the Swedish government took a more or less direct hand in the administration of 30 separate and quite different commercial ventures, which were bound together by only a single characteristic. All were either wholly or partially owned by the state, and all competed in a free market economy. These companies had become part of the government's portfolio for a variety of reasons. Some were outgrowths, in

different forms, of what had once been monopolies that the state either couldn't dispose of or found inconvenient to sell. Some, originally under private control, were experiencing difficulties and the state decided to come to their aid. Others, if allowed to collapse, would have created serious unemployment problems in sensitive areas of the country, so the government stepped in. But for whatever the reason, in late 1969, the government was deeply engaged in a variety of business ventures, only a few of which were satisfactory.

The 30 companies owned by the state reported to eight different government departments. This created a situation where responsibilities were diffuse and priorities unclear. It was to eliminate some of this confusion and to promote more efficient management, both in terms of day-to-day operations and long-range planning, that the Swedish Parliament took the step of bringing together this group of highly diverse businesses under a single administrative umbrella to be known as Statsföretag, which, in turn, would be responsible to one department only — the Ministry of Industry. With one stroke, Parliament had created an organization that was able to act as a buffer between the companies and the government, allowing individual managers to get on with their administrative duties, while the parent company assumed full responsibility for reporting to the government.

Goals of Statsföretag

But formation of this instant conglomerate, which took effect on January 1, 1970, created some unique problems. Although Statsföretag itself was a brand new entity, the oldest company within the Group dated back to the 17th century, and many had long histories of operations, some in other forms and under different ownership. Given such individual histories, there was not much natural inclination to work together. To compound matters, the companies displayed marked contrasts in product orientation and management styles, while their financial requirements, economic problems, and levels of performance were all quite different.

Thus far, the situation appeared to be strictly one of applying conventional management techniques to the solution of not unfamiliar business problems. But, because of the nature of the bill passed by Parliament, it was evident that the government had a great deal more in mind than creating a cadre of management that could help a group of faltering companies out of trouble. The task it assigned Statsföretag was far broader than that. Not only did it thrust the usual business responsibilities on the shoulders of the new corporate group, it also was made clear that Statsföretag was expected to assist in meeting certain social requirements and, in addition, that it was to promote the goal of providing job security and

work satisfaction for all employees. How it was to achieve these interrelated and, perhaps even conflicting goals, was left largely to the discretion of Statsföretag management, although certain guidelines were clearly suggested.

Initial Problems

The first task, as management saw it early in 1970, was to take a financial inventory. The result was the compilation of the first consolidated Group financial report, a document that did little to inspire public confidence. In fact, it disclosed a picture of considerable disarray. Of a total of 30 companies, nearly half — 13 to be exact — showed operations at a loss, and of the rest in the black, only two could be considered to have generally acceptable levels of profitability.

Clearly, management's first priority was to take steps to improve the competitiveness, effectiveness, and profitability of the companies within the Group. But how was this to be done? There were no textbook cases to provide guidelines. To be sure, the private sector could provide many examples of how management had improved profit performance, but Statsföretag's responsibility was broader than that. There were examples of how state-owned enterprises in other countries were run. But most of them did not adhere to the principle of strict accountability, frequently permitting the line between social action and business

performance to waver and become unclear. Statsföretag, on the other hand, was expected to keep that distinction clear and to deliver measurable results in both areas.

Decision to Decentralize

At this point, recognizing that it would have to construct its own model, Statsföretag management could have taken any one of a number of directions. As it happened, however, what finally began to move the Group in a positive way was the basic decision to adopt a management style that was decentralized in approach, rather than one in which power was concentrated at the top and hierarchical in structure. This, in fact, joined nicely with still another sanction laid down by the state — that the Group provide work satisfaction for all employees. It meshed with that concept because it is clearly difficult to accomplish such a goal within the framework of a traditional authoritarian organization.

But it was a perfectly logical decision in other ways as well. It would have been an extremely arduous exertion of administrative will to have imposed a totally unified, monolithic policy on such a heterogeneous group of business operations. Besides, the individual companies were already in existence, each with its own management and Board of Directors, all of whom were accustomed to a certain freedom of movement.

Finally, of course, adopting a policy of decentralization was entirely in keeping with the Swedish preference for independence and individualism.

Once this approach became policy, a number of elements fell more or less into place. The decision helped, for example, to arrive at a definition of exactly what constituted satisfactory business performance for a state-owned organization like Statsföretag. It was determined that the Group's measure of success would be profitability expressed in terms of return on equity, and on profit growth over a period of time. The latter is a perfectly conventional way of monitoring progress, but the former is interesting because it implies a subsidiary responsibility for financing its operations, carrying the concept of decentralization one step further.

Managing by Consensus

Decentralization requires a full measure of confidence and cooperation at all levels. And so, to help engender that spirit, a process of consultation was begun that reached out to the management of each subsidiary. Through these exchanges, Statsföretag gradually began to acquire an understanding of the problems, opportunities, aspirations, and needs of the companies. This interchange, which was dynamic, shifting, and continuing, gradually resulted in mutually established performance objectives that delineated the scope

social action
business performance

The Role of SVETAB

But even more, because the company believes deeply that it has a special responsibility to meet national social needs, it has developed still another unusual mechanism to assist in this endeavor. This mechanism is SVETAB, whose function is to invest in promising new ventures with a solid commercial potential, attempting to locate them in those parts of Sweden where employment is needed. Another new developed function of Svetab is to work as a corporate staff with responsibility to operate in the area of regional development. That means that Svetab will be one channel through which Statsföretag companies consult with the state on questions of regional requirements, and it will make these views known to operational managers, advising them how their businesses can provide this extra dimension. By setting up a separate corporate structure to function in this sphere, Statsföretag has given formal recognition that it fully accepts the broad responsibilities that were spelled out in the bill that brought it into being. At the same time, management has taken the position that a firm, well organized industrial base is a prerequisite if the endeavor is to benefit society.

A Renewed Purpose

In its attempts to improve performance, Statsföretag has insisted on ever more exacting

standards of management practice. It has held individual managers strictly accountable for results, yet, at the same time, provided them with the resources and support they needed to deliver them. But all this was not done for the sake of short-term efficiency or at the expense of the future.

Vast amounts of capital have been spent or committed throughout the Group to modernize manufacturing facilities. Funds have been spent or allocated for major new expansion programs, one of them the largest industrial expansion program ever undertaken in Sweden. Product lines have been analyzed and rationalized, brought up to date where necessary.

Through a cooperative agreement with the Swedish National Development Company, a state-owned organization specializing in technological innovation, Statsföretag is seeking out new products and systems for the markets of the 1980s and beyond, developing ideas that will find application in such crucial areas as environmental protection, process techniques, data systems, and more efficient mass transportation. Everywhere throughout the Group there are signs of movement as fresh infusions of capital, management, and, above all, of innovative ideas make themselves felt.

Statsföretag International

One result of this vitality is a recent decision to penetrate new markets. Statsföretag expects to accomplish this initially by means of Statsföretag International, a new entity that will represent Group products and services in selected areas of Africa, the Middle East, Eastern Europe, Latin America, and the Far East. Its mission will be to present the entire Group as a resource for a wide variety of needs, and as a partner interested not only in trade but in full industrial cooperation and the economic development of areas in which it is allowed to participate with products and services of proven effectiveness, reliability, and performance.

The Future

But behind the steel, paper products, iron ore, merchant ships, power plant components, machine tools, the communications equipment, the railway cars, and special pharmaceuticals, behind the technical assistance agreements entered into and the industrial development programs undertaken, there stands a quality that gives the members of the Group an added dimension as a trading partner. Beyond the goods it manufactures and the technology it has developed, Statsföretag has demonstrated an equal concern for the individual, for the environment, and for the welfare of society. These qualities are flexible

enough to find expression in many ways and to fit into many different patterns of development, operating as a force for social progress as well as immediate benefit. These are the qualities built into the technical capabilities described in the pages that follow, giving them a special relevance to the needs of the world of today and tomorrow.

TO: Mickey Huibregtsen.
Henk Cohen

DATE: November 7, 1975

SUBJECT: Surinam

FROM: Siward de Vries

CLIENT:

I herewith submit a preliminary paper, made on request of Henk Cohen and containing a number of relevant facts about Surinam, the role of the Dutch development assistance in the coming 10 - 15 years and some indications of possible opportunities for McKinsey.

INTRODUCTION

In view of the substantial amount of development assistance that the Dutch government plans to invest in the stimulation of industrial growth of Surinam after its independence, Henk Cohen started preliminary talks with Mr. Verhoeven of Bruynzeel. The issue was whether the Surinam interests of Bruynzeel could, in one way or another, benefit from the financial injections and what possible role McKinsey could play.

The question however is whether Bruynzeel is the right entrance for McKinsey in Surinam, as there might be a much more interesting scale of opportunities in the planning processes and implementation processes of the Surinam government. In order to give the discussion on this subject a more factual basis, this paper tries to give a preliminary overview of the situation in Surinam, outlining the following subjects:

- § Historic- and economic development
- § Present situation
- § Future development, especially in the light of the Dutch development assistance.

HISTORICAL DEVELOPMENT

To place the situation in Surinam in a historic perspective, this chapter will deal with the political- and industrial development.

Political Development

Surinam is part of the Kingdom of the Netherlands since 1816, gained full autonomy under the statute in 1954 (except for Foreign Affairs and Defence) and will become independent on November 25, 1975.

The recent history of politics in Surinam is a function of the development of the different ethnic groups. In the sixties two main political parties dominated the political scene: the "Nationale Partij Suriname" of Joop Pengel (Creoles) and the "Verenigde Hindoestaanse Partij" of Lachmon (Hindustans). In the election of 1973, a creole block, the "Nationale Partij Kombinatie" (NPK), headed by Henck Arron won 22 of the 39 seats in the "Staten" (Parliament), while the Hindustan "Vooruitstrevende Hervormings Partij" (VHP) of Lachmon got 17 seats. The NPK voted, under strong opposition of the VHP, for a fast independence.

Henck Arron (Creole)
Lachmon (Hindustan)
Joop Pengel (Creole)

Although last October three members of the NPK in the "Staten" left the party, thereby seriously weakening the position of Arron, the indepenence on November 25 is now definitely approved by the Dutch Parliament.

Economic Development

The economic developmer of Surinam during the last twenty years was quite unbalanced.

- ¶ Most of the growth took place in the period 1964 - 1967 (Exhibit I) and
- ¶ was concentrated in mining, industries (mostly small scale) serving as suppliers to mining and related activities
Main reasons:
 - Heavy investments of Suralco (joint venture of ¶ Alcoa and Billiton)
 - Execution of Brokopondo works. *Alus?*
- ¶ while the share of agriculture, farming and forestry decreased: (Exhibit II)
 - Stagnation of farming on a small scale
 - Disappearance of "baboen" wood.
- ¶ Government expenses increased very fast, mainly due to the to the unproportionate growth of the number of civil servants (Exhibit II).

PRESENT SITUATION

To get an impression rather than a complete picture, the following aspects will be briefly described: area and geographic features, demographic features, and the industrial structure.

Area and Geographic Features

The total area of Surinam is 55,143 square miles, divided into 9 administrative districts: Paramaribo, Commewijne, Marowijne, Nickerie, Coronie, Brokopondo, Saramacca, Torarica and Para. The country is relatively isolated and lies in a "dead corner" of the world shipping traffic. There are still big reserves of minerals (bauxite, iron), while the two big rainrivers, the Corantijn and the Marowijne, have a big potential for hydraulical energy and could serve as a source for irrigation.

Demographic Features

The population, which had, according to a census held in 1972, a size of about 385,000, is characterized by the following:

- ¶ The population grew at a rate of 3,6% a year in the period 1953 - 1961, but then slowed down because:

- Decreasing birthlevel
- Migration to the Netherlands (at the moment about 20% of the Surinam population is settled in the Netherlands).

- ¶ The population consists of a number of highly different ethnic groups:

Creoles	118,000	NPS Jupp Pangel NPK - Hinde Aron	20
East Indians	142,000	VHP - Lachmon	17
Indonesians	58,000	}	2
Bush negroes	39,500		
Chinese	6,400		
Europeans	4,000		
Aurenindians	5,100		
		<u>343</u>	

- ¶ About 70% of the population is concentrated in the district Paramaribo

Industrial Structure

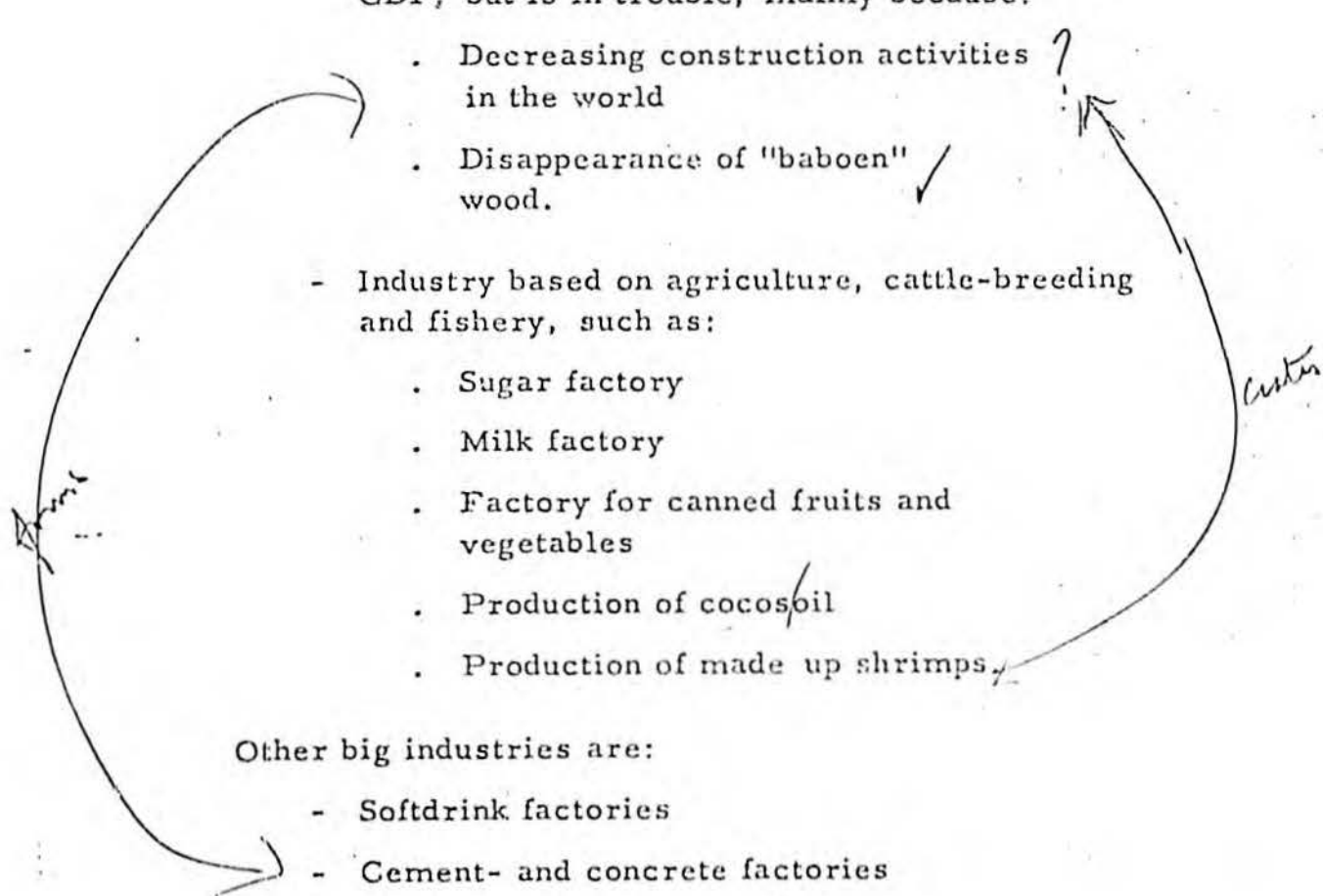
The main elements of the industrial structure which will be shortly outlined are: the major industries, the banks, the infrastructure and the working population.

§ Major industries. Most of the major industries in Surinam are based on or related to primary production:

- Industry based on mining, providing:
 - + { . 1/3 of GDP
 - . 90% of export value
 - . 40% of government income
 - { . Employment for 7% of the working population.
- Industry based on forestry, provides 3% of GDP, but is in trouble, mainly because:
 - . Decreasing construction activities in the world ?
 - . Disappearance of "baboen" wood. ✓
- Industry based on agriculture, cattle-breeding and fishery, such as:
 - . Sugar factory
 - . Milk factory
 - . Factory for canned fruits and vegetables
 - . Production of cocosoil
 - . Production of made up shrimps ✓

Other big industries are:

- Softdrink factories
- Cement- and concrete factories
- Confection workshops.



¶ Banks. There are, beside the Central Bank, three banks in Surinam:

- De Surinaamsche Bank N.V.
- Vervuurts Bank N.V.
- Algemene Bank Nederland N.V.

¶ Working population. The composition and development of the working population are reflected by the following facts:

- Only 25 percent of the total population belongs to the working population, because:
 - . 50 percent is younger than 15 years
 - . Part of the population, "bos-creolen" and indians, does not participate in modern society.
- The sectorial development of the population shows:
 - . A strong relative decrease of the number of people working in agriculture, cattle-breeding and fishery
 - . A strong absolute and relative increase of the number of government employees (Exhibit III).

FUTURE DEVELOPMENT -
ESPECIALLY IN THE LIGHT OF
DUTCH DEVELOPMENT ASSISTANCE

On June 26, 1975, the Dutch and Surinam governments signed a treaty in which the fundamentals of the Dutch development assistance to Surinam in the coming 10 - 15 years are settled. The main content of the treaty, its possible implications for the planning of the economic development of Surinam, and the possible role of McKinsey will now briefly be discussed.

The Treaty

- ¶ Basis for the development cooperation will be a medium-term development plan for which the framework was made by a Surinam-Dutch commission of experts (see members of this commission in the attachment I).
- ¶ The Dutch government will grant an amount of f 3,500 million for a period of 10-15 years, of which:
 - f 2,700 million will be spent for co-financing of projects which are part of the medium-term development program for social-educational purposes and for co-financing of industrial organizations, universities, and the "Financieringsmaatschappij voor Ontwikkelingslanden"
 - f 500 million will be spent on guarantees for development loans
 - f 350 million is not yet allocated.
- ¶ Based on the medium-term development program Surinam will develop every year a plan with proposals for financing and execution within the framework of the Dutch development assistance.

The Framework ^(MT plan)

The framework can roughly be divided in three parts: (1) it gives a number of specific (but preliminary) recommendations for support to a number of agricultural products and industries; (2) it describes what economic structure the commission envisages for the future; and (3) it gives a description of the planning institutions that should be set up to assist the Surinam government in the making and execution of the annual plan.

¶ Specific recommendations: the commission recommends that support should be given to the following areas:

- Agriculture

Rice	Peanuts
Citrus	Vegetables and fruit
Oilpalm	Maize
Sugar	Cassava
Cocoa	

- Cattle breeding

- Forestry and related industries

- Mining

Bauxite	Gold
Iron ore	Quartz sand
Kaolic	Clay

- Water power: execution of the four-phase plan to use the power potential of the Corantijn river.

¶ Future economic structure: although the big industries will continue to have a stimulating effect on the economy, the recommended policy is to create also broad facilities for modern small-scale industries, which will

- Act as subcontractors to existing big industries
- || - Produce products which are being imported or have export potential
- Extend existing small-scale industry and increase profitability.

The commission foresees that after a number of years small-scale industries will dominate the economy of Surinam because it would

- Enclose 95 percent of all industrial settlements
- Employ 40 - 60 percent of the population working in the sector industry and within this sector
- Provide >> 50 percent of all value added.

5 Planning procedures: the main tasks of the industrial development planning should be centralized in two new institutions:

- Industrialization Institute for the Big Industries; main tasks:
 - . Prepare directions concerning the way and size of participation of the Surinam population and develop facilities (fiscal climate, financial arrangements, infrastructure, etc.)
 - . Carry out market, structural and investment studies
 - . Develop and carry out intensive campaigns to stimulate the foundation of new industrial activities in Surinam and promote export.

The Institute should have affiliated offices abroad (E.E.C., U.S.A.) to promote export and tourism and to handle permits to new investors (part of this work is now done by the "Stichting Bevorderen van Investeren in Suriname")

- Development Center for Small-Scale Industries; main tasks:
 - . Advise and train the management of small-scale industries in the field
 - . Carry out research on product design, standardization, choice of machinery, export, market information, financing possibilities, etc.
 - . Judge the possibilities of loans to certain small-scale industries
 - . Stimulate the foundation of new industries in certain areas
 - . Increase productivity
- Etc.

Possible Opportunities For McKinsey

In first unofficial comments, the Dutch Secretary of Development Assistance, Mr. Pronk, expressed that he is not in favor of big financial support to capital intensive industries. In his opinion, which is widely shared by both experts working

in the field of development aid and also by the joint Surinam-Dutch Commission, support should rather be given to small-size, but highly efficient, production units, which are comparatively low capital intensive but highly labor intensive, and therefore more promising for most development countries.

In view of this, we should at least doubt whether it would be a good approach to enter any work in Surinam via Bruynzeel, as possible new industries in the wood sector, such as wood pulp or wood chips factories, are very capital intensive. On the other hand, it seems that there are a number of opportunities in the sphere of the Surinam government. This includes basically two levels:

- ¶ The two industrialization institutes, which will have a huge job in carrying out the numerous market, structural and investment studies and will have to train and advise management. Their work will probably play a major role in the yearly planning decision of the Surinam government, which will be the basis for the yearly allocation of Dutch (and possible other) development assistance. It seems unlikely that Surinam can generate enough skilled manpower to do the job in a satisfactory way.
- ¶ The government of Surinam itself, who will be ultimately responsible for both the planning and the implementation of plans.

The extensive experience of McKinsey in Tanzania could probably, among others, be used as a convincing proof of relevant knowledge (see Attachment 2).

GROWTH OF REAL NATIONAL INCOME WAS CONCENTRATED
IN A FEW YEARS . . .

Period	Average yearly percentual growth of real national income	
	Total	Per Capita
1953 - 1963	4.0	0.4
1964 - 1967	14.3	11.4
1968 - 1972	2.2	0.2
1953 - 1972	5.0	2.4

Source: Rapport van de Surinaams-Nederlandse Commissie
van Deskundigen

GROWTH OF GDP MAINLY DUE TO INCREASED MINING OUTPUT
AND GOVERNMENT EXPENSES . . .

GDP at Current Prices (SFL)

	1953	%	1968	%	1971	%
Agriculture, farming, fishery	13.5	13	43.5	10	39.7	7.2
Forestry <i>Beheer?</i>	5.0	5	14.5	3	14.9	2.7
Mining	37.0	36	139.5	31	183.3	33.2
Industry and construction	12.0	11	74.5	17	91.6	16.6
Trade, banking, insurance and transport	14.5	14	83.0	19	91.1	16.5
Government and other services	22.0	21	90.0	20	131.4	23.8
	104.0	100	445.0	100	552.0	100

Source: Centrale Bank van Suriname

SECTORIAL DEVELOPMENT OF WORKING POPULATION SHOWS
STRONG INCREASE IN NUMBER OF GOVERNMENT EMPLOYEES
AND STRONG DECREASE IN AGRICULTURAL SECTOR . . .

Sector	Working population by sector			
	1953 (x 000)	%	1972 (x 000)	%
Agriculture, cattle- breeding and fishery	26	49	23	22
Forestry	1	2	4	3
Mining	3	5	7	7
Industry and Construction	8	15	16	15
Government and other services	11	20	41	40
Total active working population	49	91	91	87
Unemployed	4	9	14	13
Total working population	53	100	105	100

The joint Surinam-Dutch Commission consisted of the following persons:

For Surinam:

- | | | | | |
|---------------------|---|---------------------|---|---|
| F.B.S.
DIRECTORS | { | Drs. H.E. Rijdsdijk | - | Director Planningbureau, president of the Commission and of the Surinam section |
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February 28, 1977

MEMO

TO: Hugh Malone
Clark Gruening

FROM: Terry Gardiner *T.G.*

RE: McKinsey and Company

Who Is McKinsey and Company

McKinsey and Company is the largest multi-national management consulting firm in the world with 22 offices worldwide. Bob Waterman is the fellow we talked to and is the Director of the San Francisco office. McKinsey is also one of the oldest management consultant firms in the world. Approximately 50% of their billings are in the area of planning. 20% of their work is done for banks and financial institutions. 92% of their work is for the private sector. The remaining 8% is with the government sector.

According to Waterman, there are 600 senior partners in McKinsey of which 40 are directors. None of the senior partners are allowed to serve on any boards of directors except public service type. Their company sometimes works with clients with conflicting interests but if this does occur, they are run out of separate offices and clients are fully informed of the conflict.

Just to get a feel of what Waterman and McKinsey are all about, this is a list of Waterman's recent jobs. Waterman recently returned to the United States in September. Since then he has been working to set up their Tokyo office. For eight months previous to Switzerland, Waterman taught at the Luzern Business School in Switzerland. Previous to that he worked for several months in Australia for the Australian Public Broadcasting Commission. In 1970, Waterman worked for about six months in Alaska, presumably for the National Bank of Alaska. We are trying to check out some of these experiences. Seattle First National Bank has been one of his major clients over the last 15 years that he has been with McKinsey. In that time, Seattle First has gone from 150th to the top 10 banks in the United States.

How Does McKinsey Work?

According to Waterman, McKinsey is as big as they want to be and makes as much money as they want. Their real goal beyond that is to help organizations change, this is defined as real change not a bunch of reports stacked on a shelf. Typically, McKinsey sends in a team to work with an organization to solve their problems.

McKinsey sighted several reasons why he felt their organization gave top performance. 1) McKinsey sends top level people in, that devote full time to a particular problem which generally an organization cannot do. In fact, he said many times they find that they know more about the organization and its problems than the organization itself after working for several months. 2) McKinsey has a lot of worldwide experience in problem solving, more than any particular organization has. 3) By being so large and worldwide, McKinsey can draw on experience of many different types in the world. 4) McKinsey has a lot of experience in planning, approximately 50% of their total billings. 5) McKinsey utilizes teams. Generally the size of the team they send in depends on the client's ability to assimilate information and change. The teams are generally multi-disciplinary. They select the individuals for their teams, based on whether they are excited about the particular project and problem; their specific past experience such as, public sector versus private sector, or planning and organization experience.

Additionally, Waterman sighted one other approach that they use that is fairly successful. For instance if McKinsey were to work on the Permanent Fund and Renewable Resource Development in Alaska, they would want several Alaskans involved as full-time "equals" on their team. This has the advantage of educating McKinsey people rather rapidly. It speeds up the entire process of knowing individuals and receiving data from Alaska. Later, as McKinsey bows out of the implementation stage of a particular project, Alaskans who were involved in the team effort, remain in the State to help carry out the rest of the project.

How Does McKinsey Actually Work on Problem Solving?

McKinsey is results oriented as supposed to being a study group. Typically, in a problem solving project, the first 25% of their time is devoted to advocating the position chosen by the decision makers. This means a lot of communications and making sure everyone in the organization understands the process and objectives. The last half of the effort is devoted to the details of implementing the plan. This involves pilot projects and testing to make sure that the process is actually going to work.

As an example, in the Australian project with the Australian Public Broadcasting Commission, McKinsey went back and did a project over at the cost of 120 thousand dollars because neither McKinsey nor the clients were satisfied with the results.

Waterman said that typically in a public sector work, much more time was devoted to communication than to actual problem solving.

Functionally, McKinsey works with checkpoints approximately every two months. This allows both the client and the consultant to decide where to go from the check point and whether each wants to continue to be involved in the effort.

The McKinsey Planning Process

McKinsey's first involvement with a client in organization is the process of goal setting (objectives.) They utilize various management techniques to help the client set their objectives. They approach it from the point of view of whatever technique works.

The actual planning process first consists of a short term annual plan that takes into consideration budget analysis, goals, and control process.

The second element of the planning process is the longer term, such as a five year plan version. This is a general version of the overall plan and is brought up to date annually.

The third element of the planning process is the decisions on major resource allocations. This would mean some rough determinations of what percentage of capital and other resources would go towards certain developments. Justifications are also necessary for these allocations. Major resource allocation are also updated annually.

The first three elements of the planning process are actually done by the managing group of an organization. The fourth element of the planning process is done by an outside force. The fourth element is a major re-examination of the entire organization and objectives. This is done every four or five years. At this point, all assumptions are questioned and restated; all resources are assessed, allocations reviewed, and a thorough reanalysis of structure and strategy of the organization.

McKinsey's Price

Waterman gave us a very rough figure of 30 to 40 thousand dollars monthly to send a full team into Alaska. The team would move into Alaska, their families etc., to work full time on the project. They would also have, of course, the backup of their worldwide organization. Based on these figures, for a six or seven month project he estimated somewhere between 180,000 and 280,000 dollars. This figure would be effected by how much full time state support was given to the overall project, such as full time Alaskan members on the "team".

Further Information From Waterman

Waterman stated that he will send us reports and information on several relevant projects from McKinsey. Specific ones that he listed in our conversation were the agricultural development in Tanzania, cooperative agricultural development in Portugal, and a new project they are involved in with the Saudi Arabian Government on expenditures of excess capital.

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Waterman also said he would send us some ideas on what we should do with our effort on the Permanent Fund and Renewable Resources Committee. Among these would be some suggestions on effective task force organization.

Waterman will also send us some background material on individuals that might be chosen on a task force to work with us.

I have a brochure from Mc Kinsey available in my office.

Room 124, 465 3718.

McKINSEY & COMPANY:
THE FIRM AND ITS PRACTICE

McKinsey & Company, Inc.

McKINSEY & COMPANY:

THE FIRM AND ITS PRACTICE

McKinsey & Company is an international professional firm whose origins date back more than half a century. Our mission is to help organizations around the world - businesses, governments, and others - to achieve their objectives and to respond effectively to changing circumstances. We help the top management of these organizations recognize and deal promptly and positively with their significant problems and opportunities. In this way we seek to serve as a major instrument for constructive change and adaption.

Among consulting firms McKinsey holds a unique position. It is well established, with more than 50 years of consulting experience and offices on five continents. It has served numerous well-known clients in both the private and the public sector on a variety of high-level problems. And, it is independent, being wholly owned and managed by its directors and principals.

This memorandum explains the history of McKinsey & Company, its organization and staff, its method of carrying out studies, and its clientele and practice.

HISTORY

McKinsey & Company owes its name to James O. McKinsey, a well-known financial control expert, author, and professor of management who founded the Firm's practice in Chicago in the late 1920s. In 1939 the Firm moved its headquarters to New York and during the next 3 decades opened offices across the continental United States. Most recently, McKinsey opened an office in Dallas, with a part of the staff resident in Houston.

In the mid-1950s, as the Firm became aware of growing international opportunities, McKinsey became one of the first U.S. consulting firms to develop an international practice. The Firm opened a London office in 1955, its first office outside the United States. That office was followed by several others on the European continent. In the 1960s and 1970s, the Firm's geographical presence was further broadened as offices were opened in Australia, Canada, Japan, Mexico, and Brazil. Although McKinsey began its overseas expansion by relocating U.S. consultants, these offices are now staffed primarily by nationals. As a result, McKinsey is now the largest multinational management consulting organization in the world.

McKinsey now has 22 offices located in Amsterdam; Caracas; Chicago; Cleveland; Copenhagen; Dallas; Dusseldorf; Los Angeles; London; Melbourne; Milano; Munich; Mexico, D.F.; New York; Paris; San Francisco; Sao Paulo; Sydney; Tokyo; Toronto; Washington, D.C.; and Zurich.

ORGANIZATION AND STAFF

While most other major management consulting firms have become either public or subsidiaries of public companies, we have preserved the private nature of our Firm. Although the Firm is incorporated, it is operated in the mode of a partnership. The Firm is wholly owned by active directors (equivalent to senior partners) and principals (equivalent to junior partners), who exercise managerial responsibility for the Firm. Because we are managed as a private partnership, we are able to maintain intellectual independence in our work and high personal and professional standards in our staff. We believe this form of management is in the best interest of our clients, who look to us for independent counsel and professional values in keeping with the confidential nature of our work.

The Firm operates under the general direction of a managing director and Executive Committee chosen from among the Firm's directors. Each of the Firm's offices has its own managing director and enjoys a considerable degree of autonomy, but all are subject to the same standards with respect to quality of work and staff. All share a common philosophy, employ similar working methods, and draw on a common reservoir of experience and expertise. Each office, moreover, can and does call on the resources of the entire Firm to bring the best specialized skills to bear on the problem of particular clients. There is a constant interchange of information, experience, and personnel among our offices.

McKinsey's staff consists of over 600 consultants, who in turn are backed by researchers, editors, computer specialists, administrators, and other staff specialists. McKinsey firmly believes that, in order to ensure its clients the best possible consulting services, it must employ only the most highly qualified men and women for its professional staff. Accordingly, the Firm seeks out the combination of educational excellence, professional achievement, and high personal standards. Nearly all McKinsey's consultants hold advanced degrees, primarily in management studies. Of these degrees, about 20 percent are doctorates. In recent years, McKinsey has often been the largest single employer of new graduates from the leading American graduate schools of business, those at Harvard University in Massachusetts and Stanford University in California, as well as from the leading European institution in this field, INSEAD, located at

Fontainebleau, France. And, the Firm regularly hires a large number of the top graduates from other leading management education institutions in North America and Europe. Moreover, a large number of consultants join the Firm after gaining solid experience in the types of industries and organizations the Firm often serves. Finally, all McKinsey consultants are subject to a continuous process of performance review as they work toward possible election to the Firm's partnership. These long-established policies for recruiting and developing associates are meant to ensure that none but the best talent is hired, and none but the best of this select group remain to attain positions of high responsibility within McKinsey.

METHOD OF CONDUCTING STUDIES

Usually McKinsey carries out assignments with teams of two to seven consultants. Each team is headed by a principal or director who is responsible for ensuring the quality of the work, maintaining relationships with client management, and leading the team in carrying out every phase of the study. However, day-to-day management of the study is the responsibility of a senior associate, who is usually located on the scene in order to directly guide study activities.

McKinsey places a priority on client involvement in the study effort. The Firm has found that clients are truly satisfied only if implementation is successful. Accordingly, McKinsey requires that every assignment undertaken begin with top management's genuine, expressed desire to improve performance or make a fundamental change. Top management is kept well informed of work progress throughout the study, and McKinsey continues to work with its clients through the implementation phases.

Another McKinsey practice to ensure client involvement is the use, whenever possible, of joint client-consultant study teams. This practice ensures that client personnel understand the study objectives, findings, and recommendations, and that they have whatever expertise or training is necessary to carry on after the implementation phase.

CLIENTELE AND PRACTICE

A primary guideline in McKinsey's practice is to seek out work on substantive problems that have impact on bottomline results. This means that we place a high value on assignments such as strategic planning, organization, profit improvement, product management and development, and the design and use of management information systems.

Much of McKinsey's work is carried out for large organizations. Over the past decade, the Firm has served more than one-third of Fortune's list of the top 500 industrial companies as well as one-third of the 300 largest non-industrial corporations. The Firm has also served major departments of the Federal Government, state and local governments, and the governments of countries around the world. The largest share of McKinsey's work - about 92 percent - is for private-sector clients. However, the Firm also has a substantial and active practice in the public sector.

The remainder of this section describes more fully McKinsey's activities in both the private and the public sectors.

Private-Sector Work

McKinsey has undertaken significant study efforts for a long and impressive list of private-sector clients. The examples below illustrate the range of our work in the private sector during the past year:

- ¶ For a large business machines manufacturer, a profit-improvement study to help management identify and implement overhead reduction opportunities with high dollar potential
- ¶ For a shipping, mining, and forest products company, a capital investment/divestment analysis to determine whether the company has the proper mix of assets and how their portfolio might be strengthened
- ¶ For a major international airline, a strategic planning effort to analyze the economics and strategy of the airline's charter and freight businesses
- ¶ For a U.S. food and beverage company, a product/market strategy study to help the client build its wine and liquor and its fast-foods franchising businesses in Japan
- ¶ For a newly merged German regional bank, a management information effort to develop a profitability reporting system by regions and by major product lines
- ¶ For one of the United Kingdom's largest book publishers, an organizational study to help the board change their management approach in order to develop its potential in the international market
- ¶ For a petroleum company, a physical distribution and operations scheduling study of the company's distribution function in its refining and marketing division

- ¶ For a Venezuelan brewery, an organization and personnel management study including a companywide review of human resources management
- ¶ For a major photocopy equipment company, an executive compensation study to develop a long-term incentive program for top executives.

Public-Sector Work

Although public-sector work makes up only about 8 percent of the Firm's total practice, our clientele includes a wide variety of public enterprises: national, state, and local governments in developed and developing nations; international organizations; educational institutions; and government-sponsored corporations, agencies, and institutions. For example, in the United States, McKinsey has worked for Amtrack and was instrumental in the creation of Conrail. We have worked, for example, for the transportation departments in the states of Michigan and California, the Bureau of the Budget in Illinois, and the Department of Human Resources in North Carolina. At the city level, our clients have included the Atlanta Metropolitan Rapid Transit Authority, the Department of Water and Power in Los Angeles, and the Philadelphia Model Cities Administration. McKinsey has also served such Federal agencies as the Federal Energy Administration, the Office of Management and Budget, the Cost of Living Council, the National Aeronautics and Space Administration, and the U.S. Department of Transportation.

Internationally, McKinsey has served the British General Post Office in its reorganization and has been consultant to the nationalized British steel industry and the Bank of England. It has served the French Ministry of Public Works, the Paris Airport Authority, and the Italian Electric Authority, the government of Saudi Arabia, Victoria Railways in Australia and the Kowloon Motor Bus Company in Hong Kong. We have worked extensively for such international agencies as the United Nations, the International Labour Office, and the World Bank. Among the developing nations, the United Republic of Tanzania has made particularly intensive use of our services.

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This brief description of McKinsey & Company has indicated in a general way the scope of the services McKinsey provides for its clients. It has defined our basic mission: to apply highly developed general analysis and problem-solving skills, extensive experience, and a knowledge of the most up-to-date management techniques and processes to the task of helping our clients achieve their objectives.