CHAPTER - 7

CONCLUSIONS AND RECOMMENDATIONS

This chapter presents the conclusions of the study based on the analysis done in previous chapters. Certain recommendations are also made in this chapter with a view to improving the performance of the public enterprises.

7.1. Conclusions:

As stated earlier, the objectives of the study were to examine the various system of performance evaluation existing in the public sector undertakings, identify relevant criteria for objective performance evaluation and make suitable recommendations to improve the performance of the public enterprise.

The hypothesis that the performance of the state public sector manufacturing units in Kerala has not been satisfactory is thus accepted.

1) The first hypothesis is that the performance of the state public sector manufacturing units in Kerala has not been satisfactory.

From the study and analysis it is found that out of the 47 manufacturing undertakings, only 18 enterprises have made profits during 1992-93. The other 29 have made losses. Total profits made by the profit making undertakings during the same year was Rs. 4189.05 lakhs against Rs. 5372.11 lakhs of total losses made by the loss-making enterprises. Thus the manufacturing sector has incurred a net loss of Rs. 1183.06 lakhs during the period. However, there has been improvement in the subsequent years as can be seen from Table 7.1.
TABLE - 7.1

Total Loss in the manufacturing sector

<table>
<thead>
<tr>
<th>Year</th>
<th>1992-93</th>
<th>1993-94</th>
<th>1994-95</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loss - Rs. Lakhs</td>
<td>1183.06</td>
<td>82.46</td>
<td>279.23</td>
</tr>
</tbody>
</table>

Source: Survey data as given earlier

On further analysis, it was found that the redeeming aspect in the entire manufacturing sector, is a few select enterprises in the chemical sector which has brought down the net loss in the sector in 1993-94 and 1994-95. Otherwise the picture would have been very bleak.

The hypothesis that the performance of the state public sector manufacturing units in Kerala has not been satisfactory is thus accepted.

The second hypothesis of this study is that the performance of these units solely depends on the production and turnover.

The analysis of the data show that the above hypothesis cannot be accepted. Even in cases where production and turnover increased, the performance of the enterprises have not improved. A case in point is the textile sector. Although production and turnover have increased over the years, the profitability has come down drastically. Though the price of raw cotton has increased as high as 70% from an acceptable level of 56 - 60% as per SITRA norms, no corresponding increase was visible in the sales price of yarn.
Therefore, in cases where the acceptable market price is less than the cost, any increased quantity of sales will result in increased losses. This is a serious situation faced by many of the state enterprises. This does not mean that the production and turnover are not important. What is established is that these factors alone cannot improve the performance.

Hence, the second hypothesis that the performance of these units solely depends on production and turnover is rejected.

The third hypothesis of the study is that the enterprise performance is not related to either the working capital or consumption to sales ratio. The results of the analysis show that the above hypothesis is not true. On the contrary it is established in the multiple regression analysis that the consumption to sales ratio and working capital have a high correlation to net profit. In the state enterprises, it is observed that the expenditure increases at a faster rate than increase in turnover. This brings to the fore the importance of improving productivity. Increase in production alone is not what is wanted; increase in production should also result in increased productivity. This situation alone can bring down the consumption cost and improved profit. With the liberalisation process moving fast, the manufacturing enterprises have to face stiff competition in the market place.

It is therefore, of paramount importance that the productivity of all resources is maximised for the profitable performance of the enterprise and its long term growth.
The availability of sufficient working capital is another major requirement for profitable performance. It is well known that the working capital management in public enterprises leaves much to be desired. Even funds provided for capital expenditure are being diverted to compensate for cash erosion resulting from below par performance. Out of the 48 enterprises in the manufacturing sector 20 had negative working capital at the end of 1994-95. This leads to higher and higher borrowals and increased interest burden, which in turn reduces the profitability. Many enterprises are in this sort of debt trap, which ultimately makes the undertakings sick.

Therefore, the hypothesis that the enterprise performance is not related to either consumption to sales or working capital cannot be accepted.

The fourth hypothesis of the study stipulates that it is not possible to evolve a set of factors for performance evaluation at the enterprise level.

The results of the analysis of the 12 selected companies indicate a different situation. The multiple regression analysis (Table 6.1) shows that each of these enterprise can identify a set of variables such as working capital, consumption to sales ratio, production, capacity utilisation, etc. which have got significant correlation to net profit. The adjusted $R^2$ value varied from 0.7632 to 0.964 (Table 6.1) These are statistically very significant.

Another interesting revelation that is emerging out of the analysis is that it is not the same factors which significantly determine the profitability in the enterprises. For each enterprise, there is a different set of parameters, varying from 3 to 5. This establishes the
fact that each enterprise has a different set of parameters which have to be managed effectively in order to improve the performances. This follows that each enterprises should be managed distinctly taking into account its special characteristics, although certain common approaches may be possible to be adopted.

The hypothesis that it is not possible to evolve a set of factors for performance evaluation at the enterprise level is thus not accepted.

The fifth hypothesis of the study is that it is not possible to evolve a common set of factors for performance evaluation applicable to all public enterprises in the manufacturing sector.

The multiple regression analysis covering all the selected enterprises showed encouraging results for developing a common strategy for performance evaluation of the enterprises as a whole. The adjusted $R^2$ value was 0.5285. The value is statistically still significant. The dependant variables in the order of ranking in this case, are (a) Consumption to sales (b) Working Capital © Expenditure (d) Turnover (e) Production and (f) Employment. This indicates that a common model can be formulated to assess the performance of the modern manufacturing sector as a whole. This will be useful to the enterprises as well as to the government authorities in formulating policies on performance monitoring and evaluation.
Thus the hypothesis that it is not possible to evolve a common set of factors for performance evaluation applicable to all public enterprises in the manufacturing sector is also not accepted.

7.2. Recommendations:

The public sector undertakings in Kerala has come of age in the sense that it has been able to achieve socio-economic development substantially. The public sector has also been vitally responsible for the collective organising of the workers indirectly. Had there been no public sector, the trade union movement would never have gathered momentum and the workers would still have been disorganised. The positive result of the organised workforce have been the acquisition of rights and substantial increase in wages. This in turn had a remarkable effect on the society. Equality and prosperity was promoted and Kerala is today easily the front runner in terms of social development and social justice in the country.

On the performance front, however, the results have not been satisfactory enough. The massive workforce working with dated plant and machinery in a climate of mismanagement has taken a heavy toll. During the last few years, however, things have changed for the better. The net losses for the year 1994-95 was only Rs. 5.92 crores as compared with Rs. 48.83 crores in 1993-94 and Rs. 109.40 crores in 1992-93. This suggests that the future doesn't necessarily look too bleak. The initiative of the government to reform and restructure the existing State enterprises is on solid grounds. As the state progresses on various fronts, the industrial scenario is also likely to brighten.
up, due to the new approach of the government. The trade unions too on its part have shown some change in its approach and is not as militant as before. The public sector, in the future is expected to perform better and generate more revenues for re-investment and thereby stop being a public burden. It will also continue to be a tool in the hands of the government to achieve a variety of socio-economic objectives. The liberalisation programme and opening up of the economy has an effect on the functioning of the state enterprises and thereby caused policy planners to make noticeable changes. The awareness to conserve the scarce resources especially energy and the environment has put more responsibility on the management of the State enterprises. As worker participation improves along with the introduction of modern management practices, the performance of the State enterprises is bound to show good results in the future.

Considering the present working and environment of the State enterprises, the following general suggestions are made:-

1) The autonomy of the state enterprises must be clearly outlined and maintained continuously.

2) The funds required for capital investment may be made available in time so that the State enterprises may have a fair chance to recover.

3) Better financial management and control should be introduced by appointing properly qualified competent professionals.
4) Find ways to stop the multiplicity of trade unions. Otherwise the scope for collective bargaining and participative management becomes limited.

5) The training of all the personnel in the enterprise be more frequently done so that they may acquire better expertise, skill and the motivation to contribute to the organisation.

6) The remuneration package to Chief Executives and other managers should be substantially improved to attract talented persons to state public enterprises.

7) The organisational structure may be redone so that there is better efficiency in the operations.

8) The Government and the public enterprises should be accountable to the public. Thus they would hold the responsibility in a genuine manner.

9) Memorandum of Understanding must be signed in its true spirit. A high powered body competent in matters of performance evaluation should assist in the entire process.

10) The tenure of the Chief Executive Officer should be longer to provide stability. Furthermore proper succession planning can go a long way in providing effective leadership.

11) The kind of service or product extended by the State enterprises should be made more competent. This essentially means improving of the quality and production processes.

12) The capacity utilisation should be stepped up and production levels should remain high. The marketing department should be competent enough to move the product and help increase the turnover.