CHAPTER-IV

PUBLIC SECTOR STEEL INDUSTRY IN INDIA

4.1 INTRODUCTION

The concepts of the phenomenon of change enunciated in the preceding chapter and different viewpoints forwarded therein provides valuable insights into this area of management which has assumed critical importance for the survival and growth of business organization in the present context. It will also help in understanding the process of growth of public sector and steel industry in India. The study of the growth of steel industry per se and the manner in which the company under study reacted to it would further lead to important understanding of the management of change practiced by the company under study.

4.2 PUBLIC SECTOR DEFINED

A Public enterprise encompassing the organisation, control, ownership and marketing aspects of productive entities, may be defined as a productive entity/ organisation which is owned and/ or controlled by public authorities and whose output is marketed. This productive entity/ organisation is an identifiable decision making unit with an explicit or extractable budget and which produces goods and/ or services. Here ownership refers to more than 50% of outstanding equity being held by a public authority, either directly by the government or indirectly by the public entities (including other public enterprises) and control means the power to be involved or actual involvement in the management of the enterprise through the appointment of top management (i.e. members of board of directors or chief executives).

4.3 PUBLIC SECTOR IN INDIA: ITS GENESIS

The genesis of public sector industry in India can be traced back to 300 BC (Srinivasan, 1990). In the Moghul period also the concept was there in its nascent form. In the days of Moghuls, some state owned karkhanas enjoyed a monopoly in the trading of several
commodities. During the British rule too, there was no public sector in India except in the field of utilities like Post and Telegraph, water works, power plants, and railways (Srinivasan N R, 1990). A few provincial Governments like those in Madras, Bengal and the United Provinces did have a few companies but they did not reflect the true mature of a public sector industry. Among the princely states, Mysore was a pioneer and had established the industries of hydro-electric plant (1897), central industrial workshop (1897), Mysore Iron and Steel Works (1918), porcelain factory (1917), Mysore electric factory (1933), sandal wood oil factory and sandal soap factory (just after the first world war), a silk weaving factory (1932), and a dichromate factory (1941). Gwalior started a leather and tanning factory in 1912 and a pottery works in 1919. Gwalior's first venture had been an engineering works way back in 1852. Travancore State started a ceramic factory in 1920 and a rubber factory in 1933.

The advent of the Public Sector in India and the understanding of the national motivations ingrained in the very concept of the public sector marks the beginning for an in-depth study of the public sector steel company in India. The social imperatives cannot be comprehended from a discussion of the developments in the steel industry alone. But for the creation of the public sector edifices, Indian would have been unable to liberate itself to the extent it has done from sheer neo-colonist economic exploitation or domination by multinational companies on the rampage - both the sad experience of Latin American and African countries. Thus commenced the initiation of public sector enterprise in India and as we move forward to study the public sector steel company, it would provide a better and deeper understanding of the subject under study.

4.4 VISION BEHIND THE CONCEPT OF PUBLIC SECTOR

In the years after Independence, the statesmen and leaders of India had the vision of creating a prosperous future for the country. But the tasks were stupendous; “India is to be
raised, the poor are to be fed, education is to be spread...” said Swami Vivekananda. Pt Jawahar Lal Nehru in his speech on the midnight of 14th August, 1947 said,” Long years ago we made a tryst with destiny, and now the time has come when we shall redeem our pledge, not wholly or in full measure, but substantially... At the stroke of the midnight hour, when the whole world sleeps, India awakes to life and freedom. A moment comes... when we step out of the old to the new, when an age ends, and when the soul of the nation, long suppressed, finds utterance. It is fitting that at this solemn moment we take a pledge of dedication to the service of India and her people and to the still larger cause of humanity... That future is not one of ease or resting but one of incessant striving so that we might fulfill the pledges we have so often taken and the one we shall take today. The service of India means the service of the millions who suffer. It means the ending of poverty and ignorance and disease and inequality of opportunity.” (Moraes Frank, 1956). Problems, which were relegated to the background during the freedom struggle, uncovered themselves and assumed importance. This solemn pledge redeemed by our national leaders was to give a tremendous impetus to the crusade to industrialize India. The leaders realized that it would only be public enterprises who would be able to invest the colossal amount of money needed for the establishment of a gigantic industry like steel. In essence the public sector defrayed the social cost of the development of private enterprises . Thus began the tryst with steel which occupies a significant place in the national economic scenario. However to what extent has it been able to accomplish the great task is yet to be seen. How far the economic policies formulated by the leaders of the nation since independence have been able to bale the country out of the quagmire of economic and social despondency remains to be evaluated. How far the public sector steel plants set up in independent India with grand intentions have fulfilled the mission for which they were created remains to be examined. Whatever the case may be, the recent trends in the business environment in India, the soaring demand, increased consumption of steel and the consequent
emergence of a number of new companies in the steel scenario in the recent past to cater to the national need amply reflect the increasing significance that Steel has assumed in building the backbone of a just developing nation like India. And to that extent, looking into the growth and level of demand and supply of steel in India today, one could easily say “Steel age is not over: it is yet to begin in India.”

4.5 MODERN PUBLIC SECTOR ENTERPRISE IN INDIA

The Directive Principles of State Policy of the Indian Constitution marks the beginning of the modern public sector enterprise in India. It emphasises the need to direct the state policy towards securing the citizens, men and women equally, the right to an adequate means of livelihood, ensure distribution of ownership and control of the resources of the community are so distributed as best to subserve the common good and ensure that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment.

Thus, the concept of state ownership and control of productive enterprises was given a tangible shape in the constitution of India. This emerged as the public sector, with a philosophy for ushering in a socialistic order in the country, for contributing to economic emancipation through rapid industrialization. Later on, in the Industrial Policy Resolutions and the Five Year Plans, these Directive Principles of State Policy find clear expression - all directed towards giving the nation the impetus necessary to propel the economy towards its set destiny. With basic background, the history of conception and growth of the public sector steel industry in India may be studied.

4.5.1 Industrial Policy Resolution 1948

The first Industrial Policy resolution was initiated by the Government of India on 6th April 1948. Initiated by Shyama Prasad Mookerjee, Industries Minister, in the Constituent assembly
The industrial policy resolution officially accepted the principle of a mixed economy. The aim of industrial policy resolution of 1948 was to help the process of investment and also to decrease industrial conflicts. The main thrust of the 1948 industrial policy resolution was to lay the foundation of a mixed economy in which both the private and the public sector enterprises could flourish together and accelerate the pace the rate of industrial development. It would seem that the Industrial Policy Resolution on the face of it has been rather modest regarding the entry of the State through public enterprises in industrial activities.

It was thus decided that a dynamic national policy must, therefore, be directed to a continuous increase in production. Side by side with measures to secure its equitable distribution, the emphasis should be on the expansion of production of capital equipment, of goods satisfying the basic needs of the people, and of commodities, the export of which will mean earnings of foreign exchange. The resolution sought to envisage social justice as the basis for the relation between labour and management. The Government recognized that its objective, namely, securing the maximum increase in production, will not be realized merely by prescribing the respective spheres of the state and of private enterprise in industry; it is equally essential to ensure the fullest cooperation between labour and management and the maintenance of stable and friendly relations between them. The industrial policy resolution of April 6, 1948 was thus the first formal enunciation of Government's that made a tremendous difference in the industrial landscape of the country.

4.5.2 Industrial Policy Resolution 1956

A significant milestone in the development of the concept of the public sector was the acceptance by parliament in December 1954 of a Government resolution which stated, 'The policy of the Government is in harmony with the policy statement of April 6, 1948; the objectives of our economic policy should be a socialistic pattern of society; towards this the
tempo of economic activity in general and industrial development in particular should be stepped up to the maximum possible extent. The fundamental precepts of this Industrial Policy were to provide a strong industrial base to India, Contribution to employment, promotion of production and products and contribution to national exchequer. As it would seem in retrospect, it succeeded to a large extent in meeting its objectives and provided a strong industrial base to India.

4.6 GROWTH OF INDIAN PUBLIC SECTOR STEEL INDUSTRY

The distinct nature of the modern public sector Indian steel industry and till recently its mode of response to its external environment can be traced back to the history of development of the Indian economy and the Industrial Policy Resolutions and Five Year Plans. As a fallout of its long colonial rule, India, after independence, faced problems of a fast increasing population, abject poverty, squalor, illiteracy, high mortality rate and many others. The stupendous task before the government was, at that point of time, was to alleviate the masses from abject poverty, speed up the process of development and strike a balance for equitable regional growth. As Nehru said in The Discovery of India," This vast difference between the few rich and the poverty stricken masses seemed to be due to two principle causes: foreign rule and the exploitation that accompanied it, and the capitalist industrialist civilization of the west as embodied in the big machine... He (Gandhi) looked back with yearning to the days of the old autonomous and more or less self contained village community where there had been an automatic balance between production, distribution and consumption; where political or economic power was spread out and not concentrated as it is today; where a kind of simple democracy prevailed; gulf between the rich and the poor was not so marked; where the evils of the great cities were absent and people lived in contact with the life giving soil and breathed the pure air of the open spaces." With this basic precept in the heart, the Indian leaders started building the Indian economy from the ashes that followed devastation by the colonial rulers.
To quote Pt Jawaharlal Nehru again from *The Discovery of India* “It can hardly be challenged that in the context of the modern world, no country can be politically and economically independent, even within the framework of international interdependence, unless it is highly industrialized and has developed its power resources to the utmost. Nor can it achieve or maintain high standards of living and liquidate poverty without the aid of modern technology in almost every way of life.” In his Presidential address before the Lucknow congress in 1936, Pt. Jawaharlal Nehru had said “I am convinced that the only key to the solution of the world’s problems and of India’s problems lie in socialism, and when I use this word, I do so not in vague humanitarian way but in the scientific economic sense. Socialism is however, something even more than an economic doctrine; it is a philosophy of life and as such also it appeals to me. I see of no way of ending the poverty, the vast unemployment, the degradation and the subjection of the Indian people except through socialism. That involves vast and revolutionary changes in our political and social structure, the ending of vested interests in land and industry, as well as the feudal and autocratic Indian states system. That means ending of private property, except in a restricted sense, and the replacement of the present profit system by a higher ideal of cooperative service. It means ultimately a change in our instincts and habits and desires. In short it means a new civilization radically different from the present capitalist order. These and many other similar thoughts had influenced the planning of the Indian economy to a very large extent which, as we shall see later, played a significant role in determining the strength of the steel industry.”

The socialistic promise that was thus idealized by our leaders for India finds expression in the speech of Nehru delivered at Avadi Congress where he said,” The point is that we are tolerating something (the private sector) which we want to push out...” and he presumed that the public sector could occupy the commanding heights of the economy and thereby take control of the economy from the private sector. Nehru was convinced that, "The Nineteenth
Century idea of private enterprise had faded away completely and there has been a dramatic shift in western countries towards government control.” He believed that the private sector in India could not, in the very nature of things, raise the heavy investment needed for the public utilities. The public enterprises were expected to take care of the social obligations too. The public sector had to provide, “more bread and more opportunity for everybody.” As he said,’ Once you control the strategic points in the economy the whole country and similarly, you control the strategic points in our economy. Having done that, you do what you can on behalf of the state and allow others to do what you can’t do or you do not wish to do. The philosophy of “Not profit but Social gain” was thus followed in the decision of starting and in the structuring of the three public sector steel plants created in the fifties - at Rourkela, Bhilai and Durgapur. Unfortunately, the social gain aspects are not as precisely measurable as profits and losses are and the public sector steel industry should not be rated on this ground totally. The planning commission established in 1950 to assess the country’s needs for capital, material and human resources and formulate a plan for their optimum and effective utilization set the ball rolling. The most important task before our leaders was to rebuild an economy that could meet these challenges and take India to the path of prosperity. These very thoughts expressed by our leaders at that period indicated the path India had decided to tread.

4.7 IRON AND STEEL INDUSTRY IN INDIA:

The history of Iron and steel in India is over 2500 years old. The ancient Indian scriptures - Rig-Veda, the Atharva Veda, the Puranas, and other epics are replete with references about the use of iron and steel in war and peace. In 480 BC, Xerxes used Indian archers in the battle of Thermopaelae who had arrows tipped with Indian steel. In 326 BC, Porus presented Alexander with 30 Lbs of Indian Steel. In 300 BC, Kautilya, also called Chanakya, wrote his famous treatise “Arthashastra” exhibiting a clear knowledge of minerals including iron ores and the art of extracting them. In 320 AD, a 16 meter tall iron pillar was
erected at Dhar, the ancient capital of Malwa, 50 km from Indore. Between 330 AD and 380 AD, a pillar of wrought iron of the size of 0.317 m to 0.416 m and a height of 8 meters (including 1 meter underground) was erected in memory of Chandragupta II at the site of Qutab Minar, in Delhi. In the 13th century, massive beams were used in the construction of the Sun Temple at Konark, Orrisa. Again in the 16th century, Indian steel known as “Wootz” was used in Middle East and Europe for making Damascus Blades. In the 17th century, Indian steel was used in the manufacture of cannons, firearms, swords, and agricultural equipment. In 1830, a suspension bridge was built over the Beas in Saugor, the iron having been made at Tendulkhama (MP). In the same year, Mr. J M Heath built an iron smelter at Porto Nova, Madras Presidency.

The establishment of the Barakar Iron Works and its consequent takeover by the Government of West Bengal marked the formal beginning of iron and steel industry in India. The Barakar works at Kulti, WB, made pig iron in open top blast furnace in 1875. After some initial years of success, the company confronted marketing and financial problems. This led to its takeover by the Bengal Iron and Steel Company, England, in 1891. The latter discovered a rich natural resource in the form of iron ore mines in Bengal in 1906. The natural corollary of this discovery was the promotion of the Indian Iron and Steel Company Limited by Burn and Co. in March 1918, with works at Hirapur, near Asansol, to produce pig iron for the domestic and export markets. Pig iron from Hirapur was highly competitive in the foreign market and enjoyed reputation in the market. In 1936, The Bengal Iron and Steel Company was merged with Indian Iron and Steel Company. Another company-The Steel Corporation of Bengal, promoted by Burn & Co. in 1937 with Sir Biren Mookerjee as Chairman of the Board of Directors came into the picture when in a final merger move, the Indian iron and Steel Company absorbed the Steel Corporation of Bengal in December 1952 to form the Burnpur Works which had a capacity to make 350,000 tonnes of steel per annum. A steel plant was
erected in 1939, next to Hirapur. Steel was made in Bumpur works in November 1939. Thus started the growth of steel industry in modern India.

4.8 MODERN PUBLIC SECTOR INDIAN STEEL INDUSTRY

The first Plan period of 1951 to 1956 marked the beginning of steel industry in public sector in India. The earlier efforts of the government had amply borne out the rising demand for steel in the wake of the emerging industrial economy of the country. The iron and steel (Major) Panel had estimated the steel demand at about 3 million tonnes by 1960. Hence there was urgent need to set up fresh capacity in the country. In the first Plan, one project was included in the public sector at an estimated cost of Rs 80 crores, to produce about 350,000 tonnes of pig iron by 1955-56, but it did not materialize. As it was considered easier to expand existing steel plants, the private sector was given permission only for limited expansion, the main chunk of fresh capacity being reserved for the public sector. Government, by this time, had anticipated that it would not be able to build up the necessary infrastructure alone for producing the required capacity of steel. The need for foreign collaboration was felt and at the suggestion of World Bank, government appointed a Technical mission in 1952 to assess the then existing and future demand of steel in India. Meanwhile the Indian Government, without waiting for the recommendations of the technical mission, contemplated setting up of an integrated steel plant in the public sector. Attempts made to collaborate with United States and United Kingdom did not succeed. Ultimately, the Indian Government was able to tie up with West Germany and an agreement was reached between the Indian government and the West Germany combine comprising of Krupp-Demag, representing the steel companies of Fried Krupp, Essen and Demag Aktiengesellschaft, Duisberg in 1953. It provided for the setting up of an integrated steel plant at Rourkela, with an initial capacity of 500,00 tonnes of steel, at an estimated cost of Rs 90.5 crores. ((Krishnamurthy V, 1988). While the government was busy
with the first public sector steel plant at Rourkela. The commission, by this time submitted its recommendations and recommended an estimated demand in the country by 1960-61 to be 6.0 million tonnes of ingot steel, corresponding to about 4.5 million tonnes of saleable steel. The estimate was substantially higher than the earlier one and taking into account the existing capacity, indicated a gap of about 4 million tonnes of ingot steel. This led the government to the urgency of setting up more steel plants in the country.

In pursuance to the recommendations of the Technical Commission, the Government explored the possibility of USSR collaborating for establishing a steel plant in India. USSR responded favourably and a preliminary report was submitted on 13th January, 1955. Accordingly an agreement was signed between the Government of India and USSR on 2nd February, 1955 for the establishment of an iron and steel plant at Bhilai with an initial capacity of one million tonnes of ingot steel.

Establishment of the third steel plant was contemplated in April, 1955. A technical mission was invited to India under the Colombo Plan, to study the feasibility of setting up of a third steel plant in India. The mission, led by Sir Eric Coates, submitted its report in August 1955. The report recommended to set up a million tonnes capacity steel plant in Durgapur, which was accepted by the Government. An agreement was signed in 1956 between the Indian government and the consortium of British Equipment manufacturers, under the name of Indian Steel Works Construction Company (London) (ISCON). In an urgency to meet the need of existing and future demand for steel in India, while the Government set out on a large scale to establish three steel plants in the public sector within the short period of one year, it did not encourage the private sector initiatives in this respect.

The construction of three one million tonne steel plants on greenfield sites was also a unique experiment, unparalleled any where in the world. It required indomitable courage on the part of
the Government. One completion, the country would be producing for the first time the current steel requirements, thus reducing the dependence on foreign countries and saving the country nearly Rs 200 crores in foreign exchange, by not importing steel (Krishnamurthy K, 1984).

The record of the share of Steel in Public Sector in Five Year Plan Outlays and Growth of Crude Steel capacity in the Indian iron & Steel Industry gives an interesting account of the genesis and growth of Indian iron and Steel Industry in India. The available data speaks volumes of the seriousness with which the industry was dealt with and thrust given to it to actualize the desired objectives.

In the initial years of the first five year plan, no big effort was contemplated to industrialized the Indian economy. Rather the emphasis was to build up the basic services that would later on facilitate the industrial growth. The Industrial Policy resolution of 1948 was to serve as the basic demarcation line between the private sector and the public sector. This started the basis for the development of steel industry in India. In the first five year plan, out of the total outlay of Rs 3760000 crores, the share of the public sector was Rs 1960,000 crores. It is worthwhile to note that out of such a massive total outlay, the share of public sector steel industry was a miniscule 0.87% and was 1.68% of the outlay proposed for the public sector units. This was in view of the fact that at that point of time the total capacity of the steel making in the public sector was a dismal 1.5 million tonnes. As the figures suggest, the Government was quite aware of this fact and in the subsequent plans, more investment was poured in and capacity increased to fulfil the demand for the growth of the national economy.

The second five year plan had the outlay doubled. More significant is the fact that the outlay for the public sector was increased by 138% and for the public sector steel industry more than
ten times. The outcome was not unforeseen. The capacity was increased to 6.0 million tonnes, with the setting up of three public sector steel plants in Bhilai, Durgapur, and Rourkela.

In the third and fourth Five Year Plan, once again the investment was increased by more than 100% to Rs 24759 crores and the corresponding growth in the outlay for public sector industry to Rs 15779 crores and more so, the steel industry to Rs 67.69 crores clearly indicates the intentions of the Government to consolidate the Public Sector for rebuilding the Indian economy. A similar trend continued in the subsequent plans and by the end of the 8th plan, the total outlay had increased to a mammoth Rs 798000 crores. The outlay for the public sector grew to Rs 361,000 crores and the outlay for the steel sector rose up to Rs 14579 crores. This is not a story, so fascinating to look at nor to so interesting to hear, but is a testimony to the grit and determination of the Indian Government to implement the noble intentions of making India to make it self sufficient and putting the country in the industrialized map of the world. Figures show that to a great extent, these tremendous effort of the Government succeeded in that by the 8th Five Year Plan, India could boast of having a fully operational steel plants at Bhilai, Durgapur, Rourkela and Bokaro with a total capacity of 11.40 million tonnes of crude steel.

While evaluating the impact of the entry of the Government into the iron and steel industry and the effect of the 1948 and 1956 resolutions and the different Five-Year Plans, there is only one major instance of the Government refusing permission for the erection of a new steel plant. This was sometime in the fifties when Birlas came up with a proposal to set up a steel plant with British collaboration. The early decision to double the capacity of the Tata Iron & Steel Co and to extend the capacity of Indian Iron and Steel Co was sound and the speedy completion of these expansion programmes was a creditable achievement considering the difficulties faced by the steel industry during those early years.
The Rourkela, Durgapur and Bhilai plants would not have come up at the time that they did - and expanded - but for the fact that the Government entered the iron and steel industry scene. This is also true for the establishment of the fourth steel plant at Bokaro. The miserable commercial experience of the public sector steel industry on profitability is another matter. Thus, to attain the aforesaid objectives set by the government, the concept of Public Sector was introduced.

4.9 CONCLUSION

The bare facts about the development of the iron and steel industry in India does give a glimpse of the national intentions and motivation ingrained into the very concept of the public sector. Notwithstanding the legitimate adverse criticism on the working of PSEs, as observed from time to time by the various committees of parliament, it remains a fact that public sector did immense good to the economy. Better result orientation is bound to boost the morale, which is admitted to be not very high, and to give a surge to the economy. It must be noted that the public sector was conceived of as an instrument of change to improve the lot of the common man but despite the enormity of resources, in men, material and finance, the nation has not yet reached the ideal socialist order- the dream of the founding fathers of the State. In a nutshell it describes avidly how far the approach lacked a proper orientation, planning missed precision and implementation lacked vigour. The result: it failed to fulfill the economic objectives of the nation. The other school of thought expressed a some what different view. The progress made by the public sector steel enterprises has been quite impressive which even detractors admit. To quote Peter Drucker (A Treatise of Management) “Few people seem to know that India has done better developmental job than almost any other third world country...the growth rate in manufacturing production equals to that of Brazil and perhaps, even South Korea. India now has a bigger industrial economy than any but a handful of
developed countries." With such different perspectives, it would be worthwhile to explore the issues further and probe deeper into the different dimensions having a repercussion on the growth of Indian Iron and Steel Industry.
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