# CHAPTER –III

## PUBLIC SECTOR ENTERPRISES OF KERALA

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PUBLIC SECTOR ENTERPRISES OF KERALA

This chapter is devoted to develop a theoretical background for the study. The chapter is divided into three main sections. Section 3.1 provides an overview of the State of Kerala. Section 3.2 briefly discusses the concept of Public Enterprises, their evolution, performance and environment to understand the background of PEs existing today especially in the State of Kerala. Section 3.3 deals with the issue of sickness and turnaround of PEs. The various macro and micro level problems that lead to sickness and major initiatives at the Central and State Government levels along with measures at the enterprise level towards turning around sick PEs, are presented.

3.1 The State of Kerala - An Overview

India, the largest democracy in the world, is located in southern Asia, with a population of over one billion, the second largest in the world after China. India is a federal republic with a Central Government and several State Governments. It has 28 States, a Capital Territory of Delhi and 6 Union Territories. The States have their own legislative bodies with rules and procedures on the running of their PEs. Kerala is one of the States located at the southwestern tip of the country, with a population of 31.84 million (3.10 % of the total Indian population – as per 2001 census) and is spread over a total area of 38,863 sq.km (1.18% of the total area of India).

The State of Kerala has attained worldwide attention for its unique nature of development, the ‘Kerala Model’. The co-existence of high standard of living with lower per capita income has led to the formulation of the ‘Kerala Model’ thesis. The ‘Kerala Model’ illustrates how a society with relatively low per capita income achieves high physical quality of life like high literacy, high life expectancy and low infant mortality (Kerala Sasthra Sahithya Parishad, 2006). The State has the highest Physical Quality of Life Index in the country with around 90% literacy, the lowest birthrate in the country - 18.2 per 1000, a death rate of 6.4 per 1000, and an infant mortality rate of 15.6 per 1000 (Debroy and Bhandari, 2002).
The Kerala State has made enviable achievements in the creation of social infrastructure, particularly in health and education systems. While this focus has led to an all-round quality of life that is significantly superior to that of other Indian States, industrial growth has not been commensurate with the State’s potential (ERC, 2001, p.1).

A study conducted by the Confederation of Indian Industries (Debroy, et al, 2000) across 13 States in India, on the effectiveness of the States in attracting investments, rated Kerala as the third best in the country in overall ranking. It has got top ranking for law & order, education, health education and the social sector. However, as is evident from the study, Kerala’s rank is relatively low with regard to investment climate, labour relations and general achievement, which might be the cause for the poor industrial development of the State.

**Political Scenario**

Since Independence (1947), the elected governments of Kerala have had a socialist orientation whose priorities have been on social development, safeguarding employment, and using SLPEs as the vehicle for development, rather than on promoting the private sector and a competitive market economy (GOK,1957). The successive governments followed more or less same policy until 1991. However, these governments have operated with a free democratic process, an independent civil service and judiciary, and have promoted human rights and civil liberties and hence cannot be compared to socialist regimes which prevailed in other parts of the world. This is the first state in India where a communist government came to power (1957) through a democratic process.

**Economy**

The economy was traditionally based on small-scale agriculture and plantations, producing a few main cash crops, with small-scale agro-processing, textiles, coir and IT-related industries. A degree of diversification has been attained through units in the chemical sector and some high-tech industries mostly in the government sector.

The State’s economy depends heavily on the money sent by the vast NRI population primarily from the oil rich Gulf countries. Large-scale migration took place primarily because of lesser employment opportunities within the State and that too because of lower industrial activity. The rejuvenation of industrial activity within the
State may solve the problems relating to unemployment and industrial backwardness of the State.

**Human Resources**

Kerala has an enviable human resource potential. As a result of considerable public investment in social capital over the decades, it now has a well educated workforce with a near 100% literacy level, significantly above the country average, for men and women. On social indicators, too, Kerala is well ahead of other Indian States (Debroy, et al, 2000). Moreover, at 25 per cent, the number of people below the poverty line in the State is significantly lower than the national average of 35 per cent with a relatively little absolute poverty (ERC, 2001).

**Natural Resources**

The State is rich in natural resources and is known for its abundant natural beauty the world over. Kerala’s long, scenic coastline has provided ample opportunities for sectors such as tourism and marine products. The State is now one of the highest earners of tourism revenues in the country and one of the world’s premier tourist destinations. The State is also the leading producer of natural rubber, coconuts, pepper, and cardamom and the second largest producer of tapioca, cashew nut and coffee. It had trade links with countries around the world for several centuries for spices like pepper and cardamom.

**Public Sector**

An important feature of Kerala economy is the wider presence of the public sector in almost all economic activities with lesser role for the private sector. It has the largest concentration of SLPEs in India and is one of the pioneer States that adopted public sector route for industrial development.

**3.2 Public Enterprises - Background**

Public sector was assigned a pivotal role in the process of economic and social development of India since her Independence in 1947. Jawaharlal Nehru, the first prime minister of independent India, had great faith in the Public sector. He thought that PEs would be the most effective and efficient channel to realize the four long-term objectives
of industrial growth, full employment, reduction of inequality and the establishment of social justice (Falk, 2005). Their role was originally outlined in the Industrial Policy Resolution (IPR), 1948 and was further crystallized in the Industrial Policy Resolution of 1956. The Public Sector was envisaged not only to control the “commanding heights of the economy” but also to serve as a vehicle to promote balanced and equitable growth. This focus has led to a phenomenal growth of the public sector enterprises both at the Centre and the States. However, Government rethinking on the role of public sector enterprises was necessitated by the severe resource crunch faced at the Centre as well as at the State level around the terminal years of the Seventh Plan (1985-90). As the net loss incurred by the Public Enterprises was a major contributor of deficit budgets, a need was felt to urgently review the role of these enterprises with a view to reducing the financial burden on the respective Governments at the Centre and in the States. After all, losses of these enterprises reduce the financial maneuverability of the Government to spend money on the development of social sectors and infrastructure, considered so vital for the development of the economy. It is in this context that the performance of PEs was criticized and they were exposed to a series of reform or turnaround measures. The present study explores the turnaround attempts in SLPE’s especially in the general context of reforms/restructuring initiated since 1990’s.

### 3.2.1 Public Enterprises – Concepts and Definition

Probably, Public Sector Enterprises have the largest labels. They are known by various names such as Government Corporations (USA), Government Enterprises, Public Corporation (United Kingdom), Statutory Corporations (Australia) Public Sector Enterprises, State Owned Enterprises (World Bank), Public Sector Undertakings (Administrative Reforms Commission [ARC], 1967). etc. All these terms are often used interchangeably to denote PEs. As these terminologies do not clearly explain the original character of PEs, there is a need to explore its attributes to place the focus of the study in correct perspective. A few definitions are considered below to understand the exact nature of PEs that exist today in India.
A.H. Hanson (1954, p. 115) States that “Public Enterprises mean State ownership and operation of industrial, agricultural, financial and commercial undertakings”. The definition emphasizes the key aspects PEs, i.e., PEs are owned and operated by the Government. Hanson’s definition also specifies the scope of PE activities. However, the definition is silent about the goals PEs are expected to pursue and the social or commercial orientation of PEs.

Friedmann (1954, p. 541) defines Public Enterprise “as an institution operating a service of an economic or social character, on behalf of the government, but as an independent legal entity, largely autonomous in its management, though responsible to the public, through government and Parliament and subject to some direction by the government, equipped on the other hand with independent and separate funds of its own and the legal and commercial attributes of a commercial enterprise”. Friedmann includes institutions with a social character into the domain of PEs but at the same time seems to underline the commercial character of PEs. Another aspect he emphasized was the independent nature of PEs, while being accountable to the public through government and parliamentary control.

Mallya (1971, p. 1) defines Public Enterprises as “autonomous or semi autonomous corporations and companies established, owned and controlled by the State and engaged in industrial and commercial activities”. Mallya emphasizes the autonomous character of PEs independent of their owner and/or promoter. He also clarifies the nature of PE activities and accordingly only industrial and commercial activities could be brought under the ambit of PEs.

Prakash, et al. (1997, p.4) define Public Enterprise “as an activity of the government, whether Central, State or Local, involving manufacturing or production of goods including agriculture, or making available the services, it has a sound blending of public purpose, public accountability, autonomous functioning and inherent right to manage and control the enterprise by the government”. This definition gives a comprehensive coverage PEs existing in Indian context but lacks clarity regarding the
purpose/nature of the enterprise, commercial or social. The foregoing discussion brings to the fore the following features of PEs:

1. Ownership, Control and Management are vested with the Government
2. Public Accountability is ensured through administrative ministries, government departments, parliamentary control, audit, etc.
3. Economic and social goals
4. Autonomous functioning
5. Wider coverage cutting across almost all spheres of activity, industrial, agriculture, commercial, social etc

So, Public Enterprises can be defined as institutions / organizations run either for commercial or social or for both, owned, managed or controlled by the government and accountable to the public but largely autonomous with a separate entity and legal status, covering almost all spheres of human activity including manufacturing, agriculture and services. They are supposed to remain as a model to private companies and create wealth for the nation for further investment and development.

3.2.2 Economic or Social

There is a disagreement with regard to the social and/or economic character (public or enterprise role) of the Public Enterprises. One view is that the ‘public’ or ‘social’ role of PEs is much more important than their ‘enterprise’ role, and therefore, public enterprises should not bother themselves about the rate of return on their investments. Accordingly, existence of PEs that are run at loss is justified in the name of the so-called social objectives, like model employer, balanced regional development, equitable distribution of wealth, etc. The maintenance of such companies requires huge commitment of public money in the form of subsidies and grants, thereby, contributing significantly to fiscal deficit of the government. It is doubtful whether the governments will continue to support such companies in the long run. Industrial policy resolutions of 1948 and 1956 clearly articulated the need to generate surpluses for reinvestment and growth irrespective of its status (Planning Commission [PC], 2002). Though PEs were conceived to generate surpluses, we need to accept the fact that many PEs in India were
established with a ‘not for profit’ or the so-called ‘social’ goal. This is indicated by the huge subsidy given to these enterprises to deliver their services. Such companies are not expected to generate profit but are rather expected to deliver services in an efficient manner. To conclude, there exist PEs of social as well as commercial character pursuing both public and enterprise goals but with a varied intensity. However, the classifications available with regard to PEs do not clearly distinguish whether a particular PE is social or commercial. Governments at the Central as well as at the State level seem not interested or concerned about such distinction between economic and non-economic enterprises, which the academicians and analysts would like to maintain.

A suitable classification of PEs into economical or social could effectively reduce much of the confusion prevailing in PEs regarding the nature of goals they are expected to serve.

### 3.2.3 Classification of Public Sector Enterprises

Public Enterprises have been classified in different ways by the Central and State governments. Various departments, institutions, study groups, committees, etc., that studied the public sector have adopted their own classifications. For instance, Central Public Sector Enterprises are divided into three categories, viz., Manufacturing, Services, and Companies under Construction (DPE, 2006). The Kapoor Committee report (Ministry of Home Affairs, 1977) on the State PSUs suggested a thirteen-fold activity classification. The SLPEs in Kerala are divided into fourteen categories based on their ‘field and type of activity’ by the BPE (2006), Government of Kerala. An all-India survey of SLPEs (1997) conducted by the Institute of Public Enterprises (IPE), Hyderabad, at the instance of the Planning Commission has classified PEs into three categories, viz., Commercial, Commercial-cum-promotional and Promotional. A study on State PSUs conducted by the Indian Institute of Cost and Management Studies & Research (INDSEARCH, 1998), Pune, for the Comptroller and Auditor General of India (CAG) had categorised the State PSUs into seven sectors: (i) Manufacturing Sector, (ii) Term Lending & Promotional Sector, (iii) Transport Sector, (iv) Welfare Sector, (v) Services & Trading Sector, (vi) Agro-based Sector and (vii) Electricity Sector. The Study Group on
Reforms (2002) in State Public Sector Undertakings constituted by the Planning Commission, Government of India, classified SLPEs into six categories, viz., Financial, Manufacturing, Promotional, Trading & Services, Utility and Welfare. All these classifications do not distinguish clearly the commercial and social PEs, except for the classification given by IPE, Hyderabad. The attempt made by IPE, Hyderabad, to classify SLPEs into ‘Commercial’, ‘Commercial-cum-Promotional’ and ‘Promotional’ was a welcome development in this direction but was not received well. A classification which is based on social or commercial objectives of PEs, would reduce lots of confusions regarding the objectives of PEs among the various stakeholders as well as among the academic community. The present study attempts a classification which captures the essence of the commercial and social character of SLPEs in the manufacturing category (Annexure II).

3.2.4 Public Enterprises System in India

Public Enterprises in India are owned and administered by Central and/or State governments and in a few cases by local authorities like Municipalities and City corporations. The central Government has 239 (DPE, 2006) Central Public Sector Enterprises (CPSEs) and the State governments have about 1070 SLPEs (INDSEARCH, 1998). The total investment in Central Public Sector Enterprises (CPSEs) is around Rs.2,30,000 crore (DPE, 2007) and in State level Public Enterprises, around Rs. 1,17,760 crore (INDSEARCH, 1998). The number of SLPEs in Kerala is 113 (BPE, 2006) and the total investments made therein is Rs. 18,875.25 crore.

3.2.5 State Level Public Sector Enterprises (SLPEs)

The State Level Public Sector Enterprises are a dominant part of the public enterprise system in India. The SLPEs are regarded as a major instrument in the hands of the State Governments to hive off their commercial activities organized departmentally. Unlike the CPSEs, there is a dearth of knowledge regarding the working of SLPEs and the need for keeping comprehensive information was felt long ago. Some attempts (IPE,
1997; INDSEARCH, 1998; PC, 2002) were done in the past to explore their performance. However, none of these studies was able to fully cover all the SLPEs.

The SLPEs cover a wide variety of enterprises undertaking a myriad of activities. However, their financial performance has been disappointing. They have become a ‘major cause of the growing fiscal deficit’ (PC, 2002, p. 23). The macroeconomic performance of the State PEs (PC, 2002) reveals that despite their satisfactory growth in terms of investment, their financial performance was unsatisfactory. Instead of earning a decent rate of return, these enterprises registered a compound annual growth of 17.36 per cent in their net losses. The manufacturing and utility category of enterprises presented a very bleak picture in terms of their financial performance and investment use (PC, 2002).

The State of Kerala has the largest concentration of SLPEs in India with 113 out of the total 1070 SLPEs in India (about which information is available). The performance of the SLPEs of Kerala is also disappointing. The number of profit-making SLPEs is only 38. The SLPEs together made a net loss of Rs. 221.69 crores as on 31st March, 2005 (BPE, 2006). The break up of SLPEs in Kerala under different sectors is given in Table 3.1.
### Table 3.1
SLPEs of Kerala Under Different Sectors

<table>
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<th>Sectors</th>
<th>Total</th>
</tr>
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<tbody>
<tr>
<td>I           Infrastructure &amp; Development</td>
<td>17</td>
</tr>
<tr>
<td>II          Ceramics &amp; Refractories</td>
<td>3</td>
</tr>
<tr>
<td>III         Chemical</td>
<td>11</td>
</tr>
<tr>
<td>IV          Electrical</td>
<td>5</td>
</tr>
<tr>
<td>V           Electronics</td>
<td>9</td>
</tr>
<tr>
<td>VI          Engineering</td>
<td>11</td>
</tr>
<tr>
<td>VII         Plantation &amp; Agro based</td>
<td>14</td>
</tr>
<tr>
<td>VIII        Textiles</td>
<td>4</td>
</tr>
<tr>
<td>IX          Wood based</td>
<td>3</td>
</tr>
<tr>
<td>X           Traditional</td>
<td>7</td>
</tr>
<tr>
<td>XI          Trading Units</td>
<td>3</td>
</tr>
<tr>
<td>XII         Welfare Agencies</td>
<td>9</td>
</tr>
<tr>
<td>XIII        Public Utilities</td>
<td>6</td>
</tr>
<tr>
<td>XIV         Others</td>
<td>11</td>
</tr>
<tr>
<td>Total</td>
<td>113</td>
</tr>
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</table>

*Source: BPE (2006)*

Out of these 113 companies, 9 were closed down in the past, 10 are under different stages of closure and another 5 had been inactive during the review period, 2004-05 (BPE, 2006). Of the 104 companies about which information is reported in the BPE (2006), excluding the companies closed down in the past, 57 (55 percent) companies are under the Industries Department and 14 (13 percent) are under the Agriculture Department and the rest 33 are spread across 21 different administrative departments of the Government of Kerala. The manufacturing segment constitutes the largest block with 64 (57 percent) units. The total number of personnel working in 104 these undertakings was 1,11,249 as on 31st March, 2005. The total turnover achieved was Rs. 8200.98 crore.
3.2.6 Forms of Public Enterprises

PEs in India have been organized in different forms with varying levels of legal and operational independence. Most of them belong to any of the following 3 types (Narain, 2005; Prakash, et al, 1997).

a) Departmental Undertakings

In this form of organization, the PEs are run and managed as governments department directly under the control of a ministry or a separate department of the ministry.

b) Public Corporations

Public Corporations are created by the special statute of parliament. In this form, PEs have more operational freedom but within the limits prescribed by the legislature. This model ensures sufficient government control without significantly sacrificing the operating flexibility of a private enterprise.

c) Government Company

Government Company is registered under the Companies Act 1956. These companies are by and large structured as Private Limited companies with the government being the sole or major shareholder. The first fully owned government company, the Sindri Fertilizers and Chemicals Ltd., in independent India was established in December, 1951. The company type has become the most acceptable and popular form of Public Enterprises in the country today.

3.2.7 Evolution of PEs

A set of ideological, strategic, economic and social considerations paved the way for the growth and development of PEs around the world. State intervention in economic and social activities is not a new phenomenon of the 20th century. The extent of State intervention in the past has shown both ups and downs. In the olden days, promotion and protection of domestic trade and industry was a natural policy of the State, in whatever form it existed, be it under monarchs or self-ruled. Their dominant interest was to strengthen the kingdom/State through direct intervention in almost all economic and social activities. Later, primarily from the 1770's the idea of free market got momentum
with the publication of Adam Smith’s ‘Wealth of Nations’ (1776) and afterwards, the government’s role in economic activities showed a declining trend. It gave maximum freedom to individuals in economic activities. This, along with the Industrial Revolution of the 18th century, led to large scale exploitation of labour and concentration of wealth in a few. The consequent economic and political pressures (e.g. French Revolution) led to an alternative economic order in which the State assumes direct control of all major economic resources through the ownership and control of all means of production and services. Another factor that contributed to the spread of PEs is the influence of Marxist ideology (Karl Marx 1818-1893), an extreme form of socialism adopted by USSR and many eastern European countries. Countries like France and UK had adopted a moderate form of socialism called Fabian socialism which got established in Europe in the 1890’s. The two World Wars and the great depression of the 1930’s necessitated a more active role by the government in addressing the issues of unemployment, economic disequilibrium, social development, etc. The State ownership of means of production translates itself into the concept of Public Sector. Again, from the 1970’s the pendulum moved towards free market the world over. The concept of liberalization, globalization and privatization has become the buzzword today. However, if the cycle continues, there is a likelihood that PEs will come to limelight again.

The history of PEs could be traced back to the 17th and 18th centuries. Britain had 330 State-owned ports in the 17th century. In Europe and the US, public corporations came into being during the First & Second World Wars. The Port of London Authority (1909) was regarded as a model for other nations to follow. Other corporations were Central Electricity Board (1926), British Broadcasting Corporation (1927) and London Passenger Transport Board (1933). Britain's model of the governing corporation was followed by all other nations.

The history of the Public sector in India can be explored in three ways representing three different time periods. They are (i) Pre - Independence Era, (ii) Post - Independence Socialist Era and (iii) Liberalization Era.
(i) **Pre-Independence Era**

This Era is characterized by the colonial rule of British and a cluster of erstwhile princely States having control over different parts of the country. The PEs in this period were primarily set up to serve the interests of the ruling class. They were more exploitative and profit-motivated than their counterparts in the post Independence era. The State of Mysore was the pioneer in the field of State Enterprises with setting up of a savings bank in 1870. The princely State of Travancore (Now Kerala) on the southern part of India is also considered as a forerunner in setting up Public Sector Enterprises. The then Divan, Sir C.P. Ramaswamy Iyyar, the visionary prime minister of Travancore had established many State-owned companies and built a strong industrial base for the State towards the end of the princely rule. The various enterprises set up by the British were exploitative in nature and were aimed at exploiting the resources of the country to feed the British industries.

(ii) **Post-Independence Socialist Era (1947 – 1990)**

This period is characterized by a dominant socialist approach giving PEs a commanding role in economic development. The idea commanding heights to public sector owe a lot to Mr. Jawaharlal Nehru, the first Prime minister of independent India. He held very strong views on the PEs. The country, when it became independent in 1947, was miserably underdeveloped. India’s approach to economic development was a compromise between a centrally planned economy and market economy. She chose a mixed economic model, by avoiding the extremes of socialism and capitalism and assuming the best in these two ideologies. Article 39 of the constitution reiterates the role of State as” the ownership and control of the material resources of the community are so distributed as best to serve the common good and that the operations of the economic system does not result in the concentration of wealth and means of production to the common detriment”. The Mixed Economy model assumes the existence and growth of private enterprises along with public sector. However, the public sector would play a commanding role. The role of the private sector will be limited and controlled through a central planning system. This period witnessed a spectacular growth in the number of PEs from a meagre 6 in 1948 to 239 in 2006. Besides, there was huge increase
in employment, turnover and investment. The policies since Independence (1947) indicated a strong socialist flavour. The Industrial Policy Resolutions (IPRs) of 1948, 1956 and other amendments to IPR up to 1990 were based entirely on socialist premises (Chopra, 2004).

The overriding importance of PEs since Independence gave rise to an oversized government, procedural delays, cost and time over-runs, corruption, inflation, and vintage products lacking competitiveness in international markets. While, soon after Independence, India shared 2.5 percent of the world trade, we are now down to about 0.8 percent (2003-2004). Also, while our forex reserves (soon after Independence in 1947) were comfortable, by 1991 we had scraped the bottom leaving only about $1 bn barely enough for half a month’s import. (India’s Forex reserves were at 114 bn. dollars in June 2004). It was at that point of time in 1991 that Dr. Manmohan Singh took charge as minister of Finance and negotiated a deal with the international financial institutions like International Bank of Reconstruction and Development (IBRD) and the International Monetary Fund (IMF) to initiate economic reforms against some forex loans essential to overcome the crisis. It is in this context that the PEs were exposed to a series of reform measures that was never attempted before and signified a new era of administration and management in PEs.

(iii) Liberalization Era (1991 onwards)

It was during the year 1991 that the government unleashed a series of reform measures in the form of Globalisation, Liberalisation and Privatisation, which have redefined the role of PEs in the Indian economy. The industrial licensing policy has undergone a sea change from the restrictive policy introduced in the Industrial (Development & Regulation) Act 1951, to the totally liberalized policy forming part of the economic reforms of 1991. In the sphere of industrial licensing, the role of the Government has changed from one of exercising control to one of providing help and guidance (Chopra, 2004). The Industrial Policy Statement of July 24, 1991 adopted a new approach towards Public Enterprises. The list of industries reserved for the public sector was reduced from 17 in the Industrial Policy Resolution of 1956 to only 8 in the July, 1991 Policy Statement. This list has been further pruned. As on March 2006, only two
industries stand reserved for the public sector, viz., atomic energy and atomic mineral oils. Some of the significant features relating to Public Sector Enterprises in the Policy Statement were as follows:

- Government was to review the existing portfolio of public investment especially in respect of industries based on low technology, small-scale and non-strategic areas and inefficient and unproductive areas, areas with low or nil social considerations or public purpose, and areas where the private sector had developed sufficient expertise and resources.

- There was to be an emphasis on measures to make Public Enterprises more growth-oriented and technically dynamic. Units that were faltering at present but were potentially viable were to be restructured and to be given a new lease of life.

- Government was to strengthen the enterprises falling in reserved areas of operation/high priority areas/generating good or reasonable profits. Such enterprises were to be provided greater management autonomy through a system of MOUs. Competition was to be inducted in these areas by inviting private sector participation and in a few selected enterprises government holdings in equity were to be disinvested.

- Public Enterprises which were chronically sick and which were unlikely to be turned around were to be referred to the Board for Industrial and Financial Reconstruction (BIFR) for formulation of revival / rehabilitation schemes.

The liberalization era is characterized by lesser importance to PEs and the primary focus of the period was reform and restructuring of PEs rather than establishing new units.

3.2.8 Evolution of the SLPEs of Kerala

The State of Kerala was formed by integrating the states of Travancore and Cochin which were under princely rule, and Malabar region which was under the British rule. Soon after Independence in 1947, the two princely states were merged and in 1956, the Malabar region was also integrated to create the Malayalam-speaking linguistic State
of Kerala. The history of the State Public Sector can be explored under two heads representing two time periods, viz, Pre-Independence era and Post-Independence era.

(i) Pre-Independence Era

Pillai (1980) in his work on State Public Sector Enterprises in Kerala has discussed the history of State Public Sector Enterprises in detail especially in the pre-independence era. According to him the Public Sector in Kerala has a much longer history than that of India in general. The State had started her experiments with Public Enterprises right from the middle of eighteenth century with the nationalization trade in commercial crops in 1750 A.D. under the rule of Maharaja Martanda Varma (1729-1758). The evidence also suggested the existence of a transport system and postal service during his princely rule. In 1790, Raja Kesava Das founded a mint at Padmanabhapuram, which issued gold, silver and copper coins. Salt industry was nationalized in 1812 A.D and from 1886, the Government started printing their own stamps. The introduction of railway in the Travancore State was taken up in 1876 from Quilon to Tinnevelly. The route was opened on 26th November 1904. The Cochin –Shoranur route constructed by Madras Railway authorities on behalf of the Cochin government was opened for traffic in 1902. Three governments, Travancore, Cochin and Madras, signed an agreement to develop the Cochin Harbour in 1925, sharing the expenditure equally. In 1931, the Government of Travancore established a State Land Mortgage bank to solve the problem of long term credit. The first enterprise in the consumer industry in Kerala is the Soaps and Oils Ltd., Calicut, established in 1914, which started its full-scale production in 1927. The Potteries started by the government of Cochin in 1919 followed. The policy followed by the governments of Cochin and Travancore was to encourage establishment of industries in the private sector and not to establish State-owned enterprises. The absence of available capital, entrepreneurial talent and the acute unemployment problem led the government to realize the need for government initiative in establishing industries under the State ownership. The Travancore Rubber Factory equipped with latest machinery was opened in 1935 primarily to protect the rubber plantation industry, which was in distress as a result of world rubber recession in 1933. The Ceramic Concerns at Kundara was started in 1940 primarily for mining and refining of China clay.
In order to check cut-throat competition among various agencies and individuals in the transport system and to appropriate the profit to itself, the Travancore Government nationalized the transport system in 1937 and placed it under a newly formed transport department.

The Second World War accelerated demand for many war-related products. Consequently a variety of industries were set up across the State, many of them being pioneering attempts in India. These include Rayon, Titanium Dioxide, Ammonium Sulphate, Caustic Soda, Aluminum Metal, etc. It was the initiative and support of the State that brought many of these industries into the State. The Government not only provided capital but also made available land and electricity at cheaper rates. Units that were established during the period include a glass factory at Alwaye (1942), an electro-chemical factory at Kottayam (1943), an aluminum conductor factory at Kundara (1943), a paper factory at Punalur (1945) and a cement factory at Kottayam (1946) based on shell lime.

The Cochin Government could not keep pace with the pattern of industrialization in Travancore. Owing to resource constraints, industrial development had to be left in the hands of the private sector. So, the Government followed a policy of encouraging private parties by providing necessary facilities and concessions.

By the time of Independence and accession to the Indian Union, a strong industrial base was built up in the State especially in the State of Travancore. Cochin also was progressing on the lines of Travancore but the Malabar region remained largely underdeveloped.

(ii) Post-Independence (after 1947)

The democratic governments that came to power could not continue the tempo created under the princely rule. Owing to political instability and lack of vision among democratic leaders, especially during the first two five year plans (1951-1960), industrialization lagged behind. The successive governments in the State since Independence have had a more or less socialist orientation and that paved the way for the rapid expansion of the Public sector. Kerala, being a State under the Indian Union, the
policy of the Central Government towards industrialization influenced the nature and orientation of industries being promoted here. Industrial Policies of the Government of India (GOI, 1948; GOI, 1956) provided the basic framework with PEs playing a commanding role and private sector playing a supplementary role. The Industrial Policy Statements (1960; 1967) of the State also clearly articulated this stand. The Statement (1967) states: “the government will function within the limits of the policy laid down by government of India” and the policy will be directed “not to thwart or impede any effort, but to smoothen the process”.

The number of SLPEs increased manifold during this period. Table 3.2 shows the growth of SLPEs since 1945.

Table 3.2
Growth of State Level Public Sector Enterprises

<table>
<thead>
<tr>
<th>Years</th>
<th>Number of SLPEs</th>
<th>Cumulative Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 1945</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>1946–1950</td>
<td>4</td>
<td>7</td>
</tr>
<tr>
<td>1951–1955</td>
<td>2</td>
<td>9</td>
</tr>
<tr>
<td>1956–1960</td>
<td>5</td>
<td>14</td>
</tr>
<tr>
<td>1961–1965</td>
<td>12</td>
<td>26</td>
</tr>
<tr>
<td>1966–1970</td>
<td>11</td>
<td>37</td>
</tr>
<tr>
<td>1971–1975</td>
<td>35</td>
<td>72</td>
</tr>
<tr>
<td>1976–1980</td>
<td>13</td>
<td>85</td>
</tr>
<tr>
<td>1981–1985</td>
<td>12</td>
<td>97</td>
</tr>
<tr>
<td>1986–1990</td>
<td>6</td>
<td>103</td>
</tr>
<tr>
<td>1991–1995</td>
<td>7</td>
<td>110</td>
</tr>
<tr>
<td>1996–2000</td>
<td>2</td>
<td>112</td>
</tr>
<tr>
<td>2001–2005</td>
<td>1</td>
<td>113</td>
</tr>
</tbody>
</table>

Source: Compiled by the author with reference to the date incorporation reported in the Annual Reviews of Public Enterprises published by BPE (various years), Kerala.
The number of SLPEs of Kerala increased from three in 1945 to 110 in 2005. About 48 companies were added during the period 1971 to 1980. The increase was only marginal since 1991.

3.2.9 Performance of SLPEs of Kerala

Traditionally, the performance of the Public Sector under the Central and State governments is poor contributing significantly to their fiscal deficit. The performance of PEs can be measured in terms of investment growth, employment creation and profitability. The performance SLPEs in terms of, employment, capital invested, amount of profit / loss since 1990 is given in Table 3.3.

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of units</th>
<th>Employment</th>
<th>Paid up capital</th>
<th>Capital invested</th>
<th>Units on Profit</th>
<th>Amount of profit</th>
<th>Units on loss</th>
<th>Amount of loss</th>
<th>Net Profit/Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990-91</td>
<td>98</td>
<td>170772</td>
<td>1206.66</td>
<td>3583.51</td>
<td>36</td>
<td>35.35</td>
<td>61</td>
<td>167.36</td>
<td>-132.01</td>
</tr>
<tr>
<td>1991-92</td>
<td>99</td>
<td>166721</td>
<td>1307.34</td>
<td>4025.62</td>
<td>33</td>
<td>46.28</td>
<td>62</td>
<td>183.73</td>
<td>-137.45</td>
</tr>
<tr>
<td>1992-93</td>
<td>99</td>
<td>163636</td>
<td>1392.85</td>
<td>4416.57</td>
<td>44</td>
<td>86.09</td>
<td>49</td>
<td>195.5</td>
<td>-109.41</td>
</tr>
<tr>
<td>1993-94</td>
<td>101</td>
<td>160600</td>
<td>1510.84</td>
<td>4960.23</td>
<td>49</td>
<td>114.36</td>
<td>40</td>
<td>163.19</td>
<td>-48.83</td>
</tr>
<tr>
<td>1994-95</td>
<td>101</td>
<td>134034</td>
<td>1668.12</td>
<td>5617.22</td>
<td>43</td>
<td>171.1</td>
<td>43</td>
<td>177.02</td>
<td>-5.92</td>
</tr>
<tr>
<td>1995-96</td>
<td>105</td>
<td>132481</td>
<td>1863.84</td>
<td>6316.11</td>
<td>44</td>
<td>227.95</td>
<td>49</td>
<td>191.85</td>
<td>36.1</td>
</tr>
<tr>
<td>1997-98</td>
<td>106</td>
<td>129102</td>
<td>2508.18</td>
<td>9427.15</td>
<td>45</td>
<td>158.73</td>
<td>51</td>
<td>268.05</td>
<td>-109.32</td>
</tr>
<tr>
<td>1998-99</td>
<td>106</td>
<td>126077</td>
<td>4236.41</td>
<td>12114.8</td>
<td>46</td>
<td>231.37</td>
<td>51</td>
<td>314.62</td>
<td>-83.25</td>
</tr>
<tr>
<td>1999-00</td>
<td>107</td>
<td>125814</td>
<td>4570.52</td>
<td>13753.2</td>
<td>42</td>
<td>284.58</td>
<td>56</td>
<td>424.8</td>
<td>-140.22</td>
</tr>
<tr>
<td>2000-01</td>
<td>107</td>
<td>128022</td>
<td>4792.47</td>
<td>15536.1</td>
<td>35</td>
<td>310.99</td>
<td>64</td>
<td>576.59</td>
<td>-265.6</td>
</tr>
<tr>
<td>2001-02</td>
<td>107</td>
<td>122824</td>
<td>4943.49</td>
<td>16299.7</td>
<td>38</td>
<td>293.53</td>
<td>50</td>
<td>511.6</td>
<td>-218.07</td>
</tr>
<tr>
<td>2002-03</td>
<td>104</td>
<td>110882</td>
<td>5136.21</td>
<td>17760.4</td>
<td>33</td>
<td>277.98</td>
<td>56</td>
<td>499.2</td>
<td>-221.22</td>
</tr>
<tr>
<td>2003-04</td>
<td>104</td>
<td>112346</td>
<td>5363.34</td>
<td>19385.9</td>
<td>40</td>
<td>283.46</td>
<td>49</td>
<td>504.99</td>
<td>-221.53</td>
</tr>
<tr>
<td>2004-05</td>
<td>104</td>
<td>111249</td>
<td>5540.07</td>
<td>18875.3</td>
<td>38</td>
<td>279.81</td>
<td>49</td>
<td>1070.68</td>
<td>-221.70</td>
</tr>
</tbody>
</table>

Source: BPE, Review of Public Enterprises (various years), Government of Kerala.
Table 3.3 shows no significant change in the number of SLPEs in Kerala since 1990-91. The number of companies making profit or loss also remained more or less same during the said period. However, the net loss showed a notable increase from Rs. 132.02 crore in 1990-91 to Rs. 221.70 crore in 2004-05. The number of employees went down from 170772 in 1990-91 to 111249 in 2004-05, showing a decrease of 59523 employees.

3.2.10 PE Environment/Stakeholders

Any study on PEs, which does not take into account the totality of the PE environment, would be incomplete (Narain, 2005, p. 7). Hence, a study on turnaround in PEs also needs to consider the totality of PE environment or at least its major constituents that exert a significant influence over its working. The main constituents or stakeholders in PE set-up having considerable influence on PE’s performance, are the Administrative ministry, Ministry of finance, Planning Board, Bureaucracy headed by the secretaries to government departments, Parliamentary committees, Department of Public Enterprises, CAG, Vigilance and Judiciary. The multifaceted structure of PE administrative set-up creates lots of functional problems to the company management. The management spends lots of time in dealing with these agencies/bodies, leaving little time to address strategic issues. It is observed that PEs are over-administered and under-managed, making PE management weak at the unit level. Though this was recognized (GOI, 1956; ARC, 1967) right from the infancy stage of PE, the issue has not been properly addressed yet. The coming paragraphs discuss the various stakeholders having considerable influence over PEs’ working.

Administrative Ministry

The ministry in charge of an enterprise, called the administrative ministry, provides a link between the enterprise and parliament. The matters between the parliamentary committees, CAG and other government agencies are routed through the administrative ministry. In Kerala, all the 113 SLPEs are spread across among 14 different administrative ministries. The administrative ministry is usually responsible for the sector of activity to which a PE belongs. Though, not envisioned, the administrative
ministry is found to exercise a decisive control over PEs. The ministers, the secretary to the ministry and the government representatives in the Board have a substantial say in the decision-making process. The PEs tend to refer issues to their parent ministries either to play it safe or at the instance of government directors on the Board.

**Bureau of Public Enterprises (BPE)**

In their 52nd Report (3rd Lok Sabha), the Estimates Committee referred to the absence of any organisation in the Government to provide policy and overall guidance to the Central Public Enterprises (CPEs) and stressed the need for setting up a centralised coordinating unit which could also make continuous appraisal of the performance of Public Enterprises. This led to the setting up of the Bureau of Public Enterprises (BPE) in 1965. In May, 1990, the BPE was conferred the status of a full-fledged Department and is now known as the Department of Public Enterprises (DPE) under the Ministry of Heavy Industries and Public Enterprises.

On the heels of the constitution of BPE at the Central level, various State governments also set up their own departments to oversee the working of SLPEs. The BPE, Government of Kerala, had under its ambit all the PE’s of the State. It was formed in 1982 by redesignating the office of the then Commissioner for Public Enterprises which was created in 1978 to coordinate the activities of State Public Enterprises. The wider coverage restricts BPE in effectively carrying out a detailed analysis of individual proposals and timely monitoring of units on behalf of Government. The BPE prepares and publishes an annual review of Public Enterprises with analysis of financial data relating to operating results and financial position. The first review was prepared and reported to the state legislature in 1982. Presently the BPE of Kerala plays only a minimal role and even the statutory obligation of publishing the ‘Review of Public Enterprises, is delegated to the Centre for Management Development (CMD), Government of Kerala. In a turnaround scenario, the PEs of Kerala were also in touch with specialized bodies like BIFR, RIAB and ERC. The matters relating to them are presented under separate heads.
Banks and Financial Institutions

An important constituent of Public Enterprises domain that significantly influences PE performance is the presence of banks and other financial institutions. Banks are playing a crucial monitoring role in ensuring that money advanced is properly used. Timely advances for working capital and capital expenditures are so vital for the better performance of PEs. Their role becomes all the more crucial during the turnaround attempt because companies in sickness face severe resource constraints and banks’ advances along with proper monitoring system could ensure more accountability on the part of the management.

Auditors

An important instrument in the hands of government to ensure accountability is audit. Proper and effective audit is necessary in the case of Public Enterprises as the fund invested in them do not belong to those who manage them. Unlike private enterprises, public enterprises are subject to double audit. One is by a group of chartered accountants who are the statutory auditors of the enterprise. This is then followed by a supplementary audit by the Comptroller and Auditor General. Though, a useful tool of control, the CAG’s audit is criticized for its limited coverage and commercial/business orientation. Only a small number of enterprises covered every year by the CAG. The audit staff comprises mainly government servants who are not very familiar with commercial audit techniques (Narain, 2005). A super-check on managerial decisions by such audit staff causes much resentment among managers. One reason for the delay in decision-making could be attributable to the time taken in anticipatory safety measures against any possible audit attack. An audit team of qualified professionals with sufficient understanding of business conditions could play a vital role in a turnaround situation.

Vigilance

The Jha Commission (Ministry of Finance, 1985) observed that Vigilance machinery and procedures are serious inhibitors of executive action and decision-making. It is criticized (Disinvestment Commission, 1997) that this machinery lacks adequate knowledge and appreciation of the business circumstances, urgencies and compulsions of
executive action, the protracted procedures involved, and general tendency to presume
guilt until innocence is proved etc., which have an intimidating and demoralizing effect
on PE executives. It costs PEs in terms of delayed decisions and consequent delays in
implementation as people choose to play it safe. The Disinvestment commission (1997)
felt that PE executives should be provided an environment in which decisions involving
normal commercial risks are taken without inviting unwarranted allegations of
misfeasance. It is better to have a strong board with professionals of repute to oversee the
executive action than calling vigilance enquiry in all the suspected cases. Even in the
vigilance set-up, inducting people with knowledge and understanding of business
conditions could be a positive step in improving the acceptance of Vigilance.

Parliament and State Legislature

Good relationship between government and Public Enterprises is essential for
improving the performance of PEs (GOI, 1990), which is not possible without the support
of parliament in the case of CPSEs or State Legislature in the case of SLPEs. Parliamentary control in the form of Questions, Debates and Discussions and through various Committees can have a powerful influence on the PEs’ working. Parliament, at least theoretically, is concerned with matters of overall policy and achievement of broad objectives, leaving the day-to-day operations to the individual enterprises. However, in practice, it gets involved even in minute details causing waste of valuable time and damage to the morale of executives in the process.

Judiciary - PEs as ‘State’

The Supreme Court in the International Airport Authority Case (AIR 1979 SC
1928) held that PEs could be considered as “State” if certain criteria were satisfied. This
has resulted in two consequences: one, it becomes amenable to the writ jurisdiction and
two, it can be held to observe the Fundamental Rights standards while dealing with
employees and the Public. Thus, PEs are now open to scrutiny of courts which involves
even their routine activities. It can be seen that courts put extra obligation on PEs against
which all fundamental rights can be enforced. Though court intervention cannot be seen
as a nuisance in a democratic set-up, it puts some constraints on PE working. As
management decisions can be stopped through a writ by an employee or an outsider, it may delay the process of decision making and its subsequent implementation.

**Trade Unions and Employees**

The employees and their organizations hold a commanding position in PEs. The PEs are expected to remain as a model employer to others in the private sector. They are institutionally standing on a different plane in which both employees and management are expected to have common goals. However, the unions have refused to accept the difference in public and private ownership and have come out with demands which are detrimental to the to the long term survival of PEs. The Multiplicity of unions and inter-union rivalry (Fazal committee, 1982) creates problems to the management. The organized trade unions have considerable say in the business decision-making process. Strong unions could reduce the management’s authority which might lead to indiscipline and disregard to rules and regulations. Political affiliations of trade unions make them more powerful and bring them to a position to override management on critical issues. Such affiliations also lead to too much interference from outside even in the day-to-day functioning of PEs. A weak management may not undertake long-term projects, thereby putting the future prospect of the company at stake. In a turnaround situation, both management and employees need to commit fully by appreciating their respective role in the company. It demands attitudinal changes among the workers and management and a spirit of teamwork which is virtually absent in sick enterprises.

### 3.2.11 Institutional Support for Turnaround

In the turnaround context, the PEs attempting turnaround also get in touch with some special bodies. The need for a special agency to deal with restructuring the public sector was felt long ago. The Tiwari committee (1981) recommended a special body to deal with sickness at the national level. The Kerala government upon realizing the importance public sector reform constituted special bodies like Public Sector Restructuring and Internal Audit Board (RIAB) and Enterprise Reforms Committee (ERC) to spearhead the process of turnaround.
Board for Industrial and Financial Reconstruction (BIFR)

The objective of SICA was to determine the sickness and expedite the revival of potentially viable units or closure of unviable units. The board of experts named the BIFR was set-up under this in Jan 1987 and it started functioning with effect from May 15, 1987. The Appellate Authority for Industrial and Financial Reconstruction (AAIFR) was constituted in April 1987. Government companies were brought under the purview of SICA in 1991 when extensive changes were made in the Act including, inter-alia, changes in the criteria for determining industrial sickness. SLPEs with 100 percent net worth erosion are to be registered with BIFR. Companies with more than 50 percent net worth erosion can also be registered with BIFR.

BIFR received 6,775 references under the Sick Industrial Companies (Special Provision) Act (SICA), from 1985 up to March, 2005. These references included 295 references from Central and State level PEs (CPSEs and SLPEs). Among the 295 cases for PEs, 212 (90 CPSEs and 122 SLPEs) were registered. Rehabilitation schemes were sanctioned for 25 CPSEs and 20 SLPEs. It was recommended that 31 CPSEs and 41 SLPEs be wound up: 6 CPSEs and 11 SLPEs were declared ‘no longer sick’. Out of the 6,775 references received, 5327 cases were registered with BIFR as on 31, March 2005. Of these, 270 cases were undergoing the revival process, 504 cases were successfully revived, 1311 cases were ordered to wind up and 1561 cases were dismissed.

13 SLPEs of Kerala were registered with BIFR and revival packages were implemented in all except two. The details are given in Table 3.4.
Table 3.4
Status of State Public Sector Enterprises Registered with BIFR

<table>
<thead>
<tr>
<th>Units Registered with BIFR</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>1  KCL</td>
<td>Failure</td>
</tr>
<tr>
<td>2  TSML</td>
<td>Failure</td>
</tr>
<tr>
<td>3  KAL</td>
<td>Success</td>
</tr>
<tr>
<td>4  KRCL</td>
<td>Failure</td>
</tr>
<tr>
<td>5  AKL</td>
<td>Failure</td>
</tr>
<tr>
<td>6  KECL</td>
<td>Success</td>
</tr>
<tr>
<td>7  SIFL</td>
<td>Success</td>
</tr>
<tr>
<td>8  TELK</td>
<td>Success</td>
</tr>
<tr>
<td>9  TSCL</td>
<td>Yet to approve scheme</td>
</tr>
<tr>
<td>10 KPDL</td>
<td>Winding up order issued</td>
</tr>
<tr>
<td>11 SCL</td>
<td>Failure</td>
</tr>
<tr>
<td>12 KSDC</td>
<td>Failure</td>
</tr>
<tr>
<td>13 KMML</td>
<td>Success</td>
</tr>
</tbody>
</table>


Since the BIFR route failed in most companies, the relevance of BIFR was questioned from different quarters and the Central government issued orders to wind up BIFR. But it is heartening to note that BIFR did wonders to potentially viable SLPEs in Kerala. Five units reported, successful turnaround, whereas 6 units reported failure of turnaround attempt. The BIFR route is criticized for the substantial delay in formulating the revival package. It often extends to 2 to 3 years and even more. The BIFR’s lack of power to enforce its decisions on participating agencies allows them to withdraw their commitments and often forces the government to bring additional money to save the package. Considering the delay and weaknesses of the BIFR route, the Central Government passed the Companies (Second Amendment) Bill, 2002 on 20th December, 2002 for the setting up of National Company Law Tribunal (NCLT) as well as an Appellate Tribunal. Though NCLT was conceived to take over the functions of Company Law Board, BIFR/AAIFR with the powers of high courts, the matter is presently held up as it is subjudice in the Supreme Court (DPE, 2006).
Board for Reconstruction of Public Sector Enterprises (BRPSE)

The National Common Minimum Programme (NCMP) of the UPA Government under the Prime ministership of Dr. Manmohan Singh wanted to have a strong and effective public sector whose social objectives are met by its commercial functioning. In pursuance of this objective of a strong and effective public sector, the Board for Reconstruction of Public Sector Enterprises (BRPSE) was established in December 2004 as a part-time advisory body to advise the Government on the strategies, measures and schemes related to strengthening, modernizing, reviving and restructuring of Central public sector enterprises. The Board considers reconstructing central PEs and suggests ways and means for funding such schemes. The Board would advise the Government on disinvestment/closure/sale in respect of chronically sick/loss-making companies which cannot be revived.

Public Sector Restructuring and Internal Audit Board (RIAB)

It is noted that there is sheer delay and cumbersome procedures regarding the administration of PEs at the government level (GOK, 1998). The government machinery was criticized for its sheer lack of professional touch in dealing with business matters. The administrative departments lack professional expertise to scrutinize, modify and authenticate the proposals put forward by the SLPEs. The extensive delay may cause the plan to become irrelevant or invalid when it is approved and money is dispersed. In order to streamline the interface with the government and the respective units, without compromising on checks and controls, a fast track approach is recommended. The highly complex issue of restructuring/reform could only be achieved by the infusion of professional expertise at the government and PE levels. The constitution of RIAB signals the first step in this direction.

The government of Kerala pioneered (GOK, 1998) the SLPE restructuring in India with the setting up of the Public Sector Restructuring and Internal Audit Board (RIAB) in 1994 with Dr. V. Rajagopalan IAS as the founder chairman. The RIAB provides support, guidance and monitoring of the SLPEs during the reform period. RIAB is functioning as an interface between PEs, government and management consultants/research/support agencies. It propagates good corporate government practices
in association with the Commonwealth Secretariat (COMSEC), Commonwealth Association for Corporate Governance (CACG), New Zealand. It has implemented reform measures in selected companies under the United Nations Development Programme (UNDP). It was the technical secretariat of ERC and was also entrusted with the management of the KIRFB created for reviving sick enterprises.

**Kerala Industrial Revitalisation Fund Board (KIRFB)**

The Kerala Industrial Revitalisation Fund Board (KIRFB) was set up by the Government of Kerala as a statutory body for providing transition phase funding to potentially viable SLPEs under the Industries Department as per the Kerala Industrial Revitalisation Fund Act, 1999. The constitution of KIRFB was done upon the recommendation of the Kerala State Planning Board to constitute a Special Financial Institution for State Public Sector Undertakings. Certain loss-making SLPEs, which were potentially viable, were not in a position to source funds for undertaking restructuring purpose. The reluctance on the part of Banks and Financial institutions to provide transition phase finance necessitated the establishment of the KIRFB.

In order to raise potentially viable units to a platform that would facilitate investments in the reform context, the KIRFB was constituted with a budgetary support of Rs. 45 crore from the Government and by raising Rs. 180 crore through issue of bonds. To avoid overheads, the KIRFB is structured as a virtual organization whose management is done by RIAB. Repayments are facilitated through a performance contract arrangement with the SLPEs under a web-based monitoring system being instituted through the Corporate Infinity facility of ICICI bank.

The total sanction from the fund till 31-3-01 was Rs.306 crore and disbursements till 31-10-01 was Rs. 204 crore. The percentage of recovery to collectable demand as on 30-9-01, was 60 percent for principal and 80 percent for interest.

In spite of close monitoring by the RIAB, funds from the KIRFB are being misused (ERC, 2001). This is largely because the KIRFB fund was perceived as a government fund with little accountability compared to the fund of an outside financial Institution.
United Nations Development Programme (UNDP)

A UNDP-funded project on Public Sector reforms by the government of India and government of Kerala was taken up by RIAB for capacity building at RIAB and for Pilot implementation of restructuring programme in three selected SLPEs. The programme is implemented in Autocast, KSDP and KSSCL with guidance from the Management and Services division of the commonwealth Secretariat, London. The Commonwealth Secretariat also supported a training programme on Corporate Governance for Board members of SLPEs.

Enterprise Reform Committee (ERC)

An important initiative on the part of the government of Kerala to revive SLPEs was the setting up of ERC in 2001 with RIAB as its technical secretariat. The purpose of ERC was to expedite the complex task of public enterprise reforms. The ERC had a Principal Secretary (Industries), a Principal Secretary (Finance), and Secretaries of BPE, Planning, Law, Labour and the concerned administrative departments were the members. The ERC was supposed to take into consideration the views of all stakeholders while formulating its recommendations keeping in mind the best interests of all concerned. The RIAB would guide the SLPEs to formulate its restructuring package to be submitted to the ERC. For this, RIAB/ERC may seek the help of trained professionals from other SLPEs and outside consultants. The ERC published an ‘Approach Paper’ (ERC, 2001) towards providing a policy framework for undertaking SLPE reform.

Looking at the composition of ERC, it is found that most of the members are either retired or present bureaucrats representing different administrative departments. Though consultants and experts from outside were utilized for drawing up detailed revival plans, the decision-making was greatly vested with top bureaucrats and politicians. Hence, the ERC could be seen only as a government department lacking professionalism. Owing to its inherent weakness and strong political and labour resistance, the government finally decided to wind up the ERC in 2003. During its short tenure, the ERC had put forward recommendations for the revival of 27 companies. Another 11 companies’ proposals were under the active consideration of the government, when it was wound up.
3.3 Sickness and Turnaround in Public Enterprises

This section covers a brief review of the literature relating to sickness and turnarounds in Public Enterprises. The observations of various committees and study groups relating to sickness or underperformance of PEs along with measures suggested to overcome it at the macro and micro levels are presented. Besides this, the findings of the academic community and opinions of experts with regard to sickness and turnarounds / restructuring /revival of PEs are also discussed.

3.3.1 Sickness in Public Enterprises

Industrial sickness is a major bane of the Indian economy. As per RBI data, at the end of March 2002, there were 1,77,336 units identified by banks as “sick” having outstanding dues of 4,81,895 crore. Of these, 1,67,574 were non-viable units with outstanding bank credit of Rs. 4,14,676 crore. Similarly, according to the Department of Public Enterprises (DPE, 2005), as on March 31, 2004, 88 Central Public Sector Enterprises had incurred a loss Rs. 8399 crore. 70 CPSEs had been registered with BIFR owing to complete net worth erosion. In Kerala out of 113 SLPEs only 38 companies could make profit in 2004-05, (BPE, 2006). Of the remaining units, 49 SLPEs reported making a total loss of Rs. 501.50 crore and 26 SLPEs were non-working due to their huge financial losses and unviable businesses.

Government as owner and regulator of the economy wants a strong public sector. The growing menace of sickness in PEs reduces the government’s capacity to influence the economy and waste valuable public money. Turnaround attempts aim at giving another chance to sick PEs to reverse their sickness and stand on their own feet. Any turnaround effort requires adequate attention to be given to the factors that have led the company to sickness. It may help the management to devise suitable turnaround measures that can suitably ward off the causes of companies’ sickness.

3.3.2 Causes of PE Sickness

Numerous units in both public and private sectors went sick, closed down and were left idle for years, thereby putting into disuse a huge amount of capital assets of the
country. Turnaround measures are devised and implemented after a detailed diagnosis of the root causes of company sickness. Turnaround is most likely if company management and government could devise appropriate remedial actions that effectively remove such causes.

The tardy performance of PEs over the years invited considerable attention from different quarters. Government machinery including the administrative ministry, government departments, Planning Board, Reserve Bank Of India, Financial Institutions, politicians and academic community have invested considerable time and energy to unearth the reasons for poor performance. They brought out the important causes of industrial sickness which are discussed below.

Although industrial sickness has been endemic in Indian industry in the last few decades, there have been very few attempts to quantify the factors causing it. Studies from the early nineties divide the “factors responsible for sickness” into two broad classes, viz. external and internal, depending on whether they are perceived as beyond or within the control of the individual firm (Biswasroy, et al., 1990; Gupta, 1990; Ramakant, et al., 1993).

According to Falk (2005), the important causes of sickness are over-employment, low productivity per man and machine hour, wastage of resources, corruption, inability to invest in time, inability to innovate, mismatch between capacities built up, the intervention by local, State and central politicians, bureaucrats, pressure groups, unions, etc, lack of autonomy, accountability, and flexibility, industrial unrests, the perpetual demands for higher salaries, bureaucratic working, diseconomies, control over prices, capacity constraints or shortage of essential raw materials, and unfavourable government policies.

The White Paper (GOI, 1990) on PEs regarding the functioning of Central PEs has observed that some problems that cause sickness and stagnation in PEs are insufficient growth in productivity, poor project management, over-manning, lack of continuous technological up-gradation, inadequate attention to R&D, location of public enterprise in a backward area, lack of adequate operational freedom and flexibility,
excessive supervision and control, multiplicity of objectives, shortness and instability of tenure at the top levels, and government style of functioning.

The Government of India Statement on Industrial Policy (1991) observed that public sector now faces serious problems regarding insufficient growth in productivity, poor project management, overstaffing, lack of continuous technological upgradation, inadequate attention to R&D and human resources development, excessive control by various agencies, too much duplication of work leaving very little time to manage, interference by political parties, trade unions, bureaucrats even in day-to-day matters, and lack of freedom for initiative and entrepreneurship, malaise and corruption in the political system, political interference, excessive bureaucratic control where minor matters have to be referred to ministries for clearance, failure of many public agencies to plan and organize their services, and a general lack of accountability due to protective legislations.

Narain (2005) opined that factors both at the Macro and Micro levels were responsible for sickness. The macro level causes were undue emphasis on the ‘public’ at the cost ‘enterprise’ or ‘commercial’ dimension, use of PEs for personal benefits for those who rule them, denial of proper management and autonomy, bureaucratic and political interference, delayed decisions, and lack of clear and consistent objectives. Micro level causes include use of PEs as a mechanism through which government policies are carried out, wrong investment decisions, absence of market survey, location of enterprises in backward areas, weaknesses in Project planning and management leading to time and cost overruns, unforeseen developments and managerial inefficiencies.

Prakash, et al. (1997, p. 506) suggested a list of causes responsible for sickness which includes failure to modernize technology, failure to adopt according to environmental change, overstaffing, lack of proper utilization of funds, wage structure not related to performance, faulty government policy, undue political interference, political appointments at top level, and non-implementation of proper autonomy and accountability.
He also suggested a list of managerial problems encountered by PEs in the twenty-first century which could explain the reasons for underperformance or sickness of PEs today. They are lack of clarity in company objectives/conflicting objectives, political interference in the choice of location, defective feasibility reports, wrong selection of technology, time and cost overruns, ambiguous government policy, lack of initiative and operational autonomy, unsound production planning, multiplicity of products, underutilization of capacity, inefficient inventory management, poor quality of raw materials, lack of fund for balancing equipment, inadequate maintenance management, little attention to R&D, overcapitalization, wrong pricing policy, unfavourable debt equity ratio, shortage of working capital, low labour productivity, overstaffing, lack of training and management development, low morale, flight of talents, indiscipline, trade unions, lack of professionalism in management, competition from private sector, poor quality products, demand constraints imposed by the market, ineffective government control, excessive parliamentary control, and orthodox system of audit.

Mishra et al. (2004) has given a list of reasons that are responsible for the poor performance of PEs. They are obsolete and outdated technology, inadequate maintenance and poor utilization of plants and machinery, surplus man power, lower productivity, lack of suitable markets, unstable industrial relations, erratic supply of electricity, poor enterprise design and operation, limited exposure to modern production, inadequate R&D, wastage of resources, high cost structure, poor management and lack of managerial skills, excess capacities, and poor project planning and implementation.

The White Paper (GOK, 1998) on Public Enterprises under the Industries Department of the State has observed a lot of reasons. The document covers 60 enterprises and 12 Co-operatives under the Industries Department. Some important observations made regarding the underperformance of SLPEs of Kerala are as follows.

- PEs have a very closely held shareholding, being the single largest shareholder with the government having about 98% of the total stake,
- Notable reduction in institutional finance available to PEs thereby lessening the chances of strict monitoring by financial institutions.
• Ineffective management of working capital at the enterprise level
• Reluctance on the part of Banks and FIs to extend need-based working capital
• Absence of a creative role that could have been played by FIs through their monitoring system.
• Debt equity ratio is high at 1.98:1. The PEs are not in a position to service this high level of debt.
• 20 to 25 years old technology in most of the PEs
• Weaknesses in the mode of selection, terms of appointment and remuneration.
• Manpower in PEs lack professionalism and adequate training.
• Excessive, less productive, high cost manpower
• Functional directors are virtually absent.
• Pending audit.
• Substantial delay in formulating revival package.
• Lengthy procedure and exhaustive correspondence cause extensive time delay in approving the proposals.

The Enterprise Reforms Committee published an ‘Approach Paper’ (ERC, 2001) detailing the broad policy regarding SLPE reform. It observed that the major issues in governance and management of SLPEs in Kerala were lack of direction and commitment, non-participation of support agencies due to lack of trust citing unpleasant experiences in the past, enormous time delays mainly due to poor knowledge management in implementing agencies, conflicting objectives (commercial vs. social) which are often advocated by organized trade unions that prevail in the decision making process, lack of clarity in the authority and responsibilities, lack of exposure of Governments to commercial business practices, lack of state-of-the-art technical expertise, low incentives for management, Poor management of working capital and pending audit, delayed decision making, redundancy of manpower mainly due to lack of clear norms for recruitment and up gradation of skill sets leading to improper person-task fit, high gearing projects, absence of clear-cut strategies and legislations leading to ad hocism and challenge in courts, absence of performance monitoring and management audit, outdated
technology and unviable processes which make them inherently unviable. Most of the SLPEs are highly localized and have not diversified in tune with changing macro economic conditions. SLPEs that should be commercially run have projected a social logic that is really non-existent and has continued to be a drain on the exchequer.

The managements ERC (2003) in most cases, approach the Government for working capital support as an easy way of running the concern rather than approaching banks with worthwhile proposals. The control systems within the SLPEs were not strong to ensure accountability. The debt was beyond the unserviceable levels.

ERC (2001) was of the view that the distinction between SLPEs and Government Departments has been narrow, and systems to ensure accountability and responsibility among personnel are insufficient. There is no fixity of tenure for CEOs. Organizational policy is drafted to ensure vertical mobility in the organizational hierarchy irrespective of the need, with the result that the top management consists of a good proportion of people with low managerial capabilities who have joined at lower levels during the inception of the SLPEs. In some cases, there are not enough people at the shop floor to plan, execute and produce measurable tangible outputs. Government, the promoter, always has had social as well as commercial considerations and SLPEs have not been able to balance these two objectives by drawing up specific strategies for sustenance and growth. The major lacuna in Public Sector Governance has been the problems encountered in professionalizing management at the enterprise level. The absence of functional directors on the board of SLPEs, except in a few companies has resulted in lack of professional direction at the board level.

The annual Economic Review published by the State Planning Board, Government of Kerala contains a section for Industry and Mining where the performances of PEs are evaluated. A survey of the ‘Economic Review’ from 1990 onwards suggests various ailments that affect PEs in Kerala. Unfavourable market conditions, shortage of working capital, scarcity of raw material, stiff competition from private companies (SPB, 1993), lack of demand/orders, lower productivity, delay in payment by government department,
capacity constraints, excess man power, hike in raw material cost, obsolete machinery and frequent breakdowns (SPB, 1996).

The Task force (SPB, 1989) on Public Sector for the eighth plan (1990-1995) observed that State public Sector Enterprises suffer from issues such as uneconomic size, high debt equity ratio resulting in huge interest burden, improper financing, poor inventory and working capital management, underutilization of installed capacity and low productivity, technological backwardness, non-availability of power and raw materials, poor management, lack of professionalism, inefficient project planning and implementation resulting in time and cost overruns, and inadequate monitoring and control mechanism.

3.3.3 Turnaround Measures to Counter Sickness

Public Enterprises reform, as is conceived today, is of recent origin. The PE reforms initiated by the Thatcher government of Britain in the eighties bring the concept of PE reform into limelight. In India, too, the reform measures were started in the 80’s (GOI, 1980) but in fits and starts. This got an impetus with the economic reforms in 1991 against the backdrop of the economic crisis. These drastic measures, by and large, revoked much of the protection accorded to PEs and they are exposed to market competition. These reform measures deal with both the internal and external environment of the organization. The environmental changes such as liberalization, privatization, divestiture, other government policies such as import-export restrictions etc have a bearing on PE performance. Hence, PEs are exposed to changes, both internal and external, to the organization. The success or failure depends on how well each organisation adapts itself (adjusts internally) to these changes. In a turnaround situation, there are number of measures at the government and organisation levels to bring about turnaround. The Companies that undertake turnaround have to make a lot of internal changes to achieve a turnaround along with reforms/changes at the environmental level. Important macro level measures are discussed below;

A. Initiatives at the Central Government Level

The government, being the owner of Public Enterprises and regulator of the economy adopted various measures to revive PE performance in the past. In this section
we deal with some of the initiatives at the Central Government Level which also have a bearing on the performance of the SLPEs in Kerala.

**Industrial (Development and Regulation) Act, 1951**

The first enactment in independent India that contains legal provision for restructuring or liquidation of sick companies is the IDRA, 1951 which empowers the government to take over the management of companies suffering from sickness primarily to protect employment. It contains provisions that no suit or legal proceedings shall be instituted or continued against such companies under sickness.

**The Industrial Reconstruction Corporation of India Ltd. 1971**

The Industrial Reconstruction Corporation of India Limited (IRCI) was set up in 1971 to provide financial assistance to sick units. The organization was converted to the Industrial Reconstruction Bank of India (IRBI) in 1985 under the IRBI Act, 1984.

**Section 72A of the Income Tax Act, 1961**

In 1977, the Income Tax Act, 1961 was amended with the inclusion of Section 72A by which tax benefits could be given to healthy units when they took over sick units. The tax benefit is in the form of carry forward of accumulated losses and unprovided depreciation of sick companies by the healthy company who takes over the sick company.

**Policy Guidelines on Sick Units, 1981**

The government issued policy guidelines on sick units in Oct. 1981 which were modified in February, 1982. These guidelines emphasized the role of concerned administrative ministries in taking remedial measures in respect of industrial units falling under its jurisdiction. It also called upon banks and other financial institutions to strengthen their monitoring mechanism so that sickness is detected early and corrective action is taken at the incipient stage itself.

**Sick Industrial Companies (Special Provisions) Act, 1985 (SICA)**

Industrial sickness had started right from the pre-Independence days and the need for a special mechanism to deal with sickness was felt long ago. However, the
Government had earlier tried to counter the sickness with some ad-hoc measures like nationalization, taking over the management of sick enterprises, special guidelines, etc.

In the wake of sickness in the country’s industrial climate prevailing in the eighties, the Government of India set up in 1981 a Committee of Experts under the Chairmanship of Shri T. Tiwari to examine the matter and recommend suitable remedies. The committee submitted its report to the Govt. in September 1983 and suggested the following:

1. Need for a special legislation
2. Need for setting up of exclusive quasi-judicial body.

Based on the recommendations of the Committee, the Government of India enacted a special legislation, namely, the Sick Industrial Companies (Special Provisions) Act, 1985 commonly known as the SICA. As per the Act, the BIFR was constituted as a quasi-judicial body with the AAIFR acting as the appellate authority.

**Economic Reforms, 1991**

A major development with regard to the revival of PE is the new Economic reforms introduced in 1991 by the Government of India. Important measures introduced as part reforms with regard to PEs are given below:

1. The number of industries that were reserved for PE’s was reduced to just 3 in 2002 from 17 prior to 1991.
2. The Sick Industrial Companies Act (SICA) was amended in 1992 to bring PEs within the jurisdiction of the BIFR. It can decide whether the sick PEs should be restructured or whether they should be closed down.
3. The National Renewal Fund (NRF) was introduced in the 1991-92 budget to provide social safety net to protect employees from the adverse consequence of restructuring. It provides assistance to firms to cover the cost of retraining and redevelopment of employees, to provide funds for compensation to employees affected by restructuring and closure of industrial units and to provide fund for employment generation schemes in the organized and unorganized sectors.
4. The Government constituted an Inter Ministerial Working Group on Industrial Restructuring in 1991 under the chairmanship of Mr. J.L. Bajaj, the advisor of the Planning Commission. The group recommended significant changes in the Companies Act, Industrial Dispute Act and Sick Industries Companies Act (SICA) 1985.

5. The DPE decided to launch a Voluntary Retirement Scheme (VRS) in 1988 and it got fresh momentum in 1991 with the economic reforms adopted by the government. It is also known as the ‘Golden Handshake’ policy.

6. In a major shift in economic policy, equity of some Public Sector units has been sold to mutual funds and the public, though not up to the desired levels as proclaimed by successive governments.

**Privatization/Disinvestment**

Privatization is a process that aims at reducing involvement of the State or the public sector in the nation's economic activities in favour of the private sector (Gouri, 1991). The policy of disinvestment was first enunciated by the Government, under Prime Minister Mr. Chandrasekhar, in their interim budget 1990-91. It is followed by successive governments but in varied intensity. It was to divest up to 20% of government holding (IPR, 1991), 20% of government equity (Budget speech, 1991-92), up to 49% to100% (Rangarajan Committee, April 1993).

The purpose of disinvestment is stated to be broad-base equity, improve management, enhance availability of resources for these PEs and yield resources for the exchequer (interim budget 1990-91), provide further market discipline to the performance of Public Enterprises” (GOI, 1991), encourage wider public participation and promote greater accountability (the Budget speech, 1991-92), proceeds from disinvestment would be deployed in social sector, restructuring of PEs and retirement of public debt (Budget speech: 2000 – 2001). Though disinvestment is done at many CPSEs, nothing much has happened in the SLPEs of Kerala except inviting ‘expression of Interest’ in a few cases in 1991.
Memorandum of Understanding (MOU)

The introduction of Memorandum of Understanding (MOU) was suggested by Arjun Sen Gupta Committee as a device to give autonomy to PE managers. MOU is one of the devices to improve PE performance. Under this scheme, the government as owner commits the management of PE to secure a particular level of performance during a period. Though such MOUs or performance contracts were in CPSEs, no such measures were found in the SLPEs of Kerala. In June’97, the Central Government granted full operational freedom to nine leading public sector undertakings (Navratnas). This marks a paradigm shift in Corporate Governance in government-owned enterprises. A cardinal principle of Corporate Democracy is to keep shareholders sufficiently distinct from managers and, concurrently, to grant enough freedom to managers to manage efficiently. The declaration of Navratnas was partly an attempt to achieve this purpose. However, whether these companies have really become independent and are operating freely is doubtful.

The National Renewal Fund (NRF)

The National Renewal Fund (NRF) was announced by the Govt. of India, as a part of the new Industrial Policy, 1991 and was established on February 03, 1992 to protect the interests of the workers likely to be affected by technological up-gradation and modernization in the Indian industry. The aim of the NRF is to provide a social safety-net for labour. The major objectives of the Fund include providing assistance to cover the costs of re-training and re-deployment of employees arising out of industrial restructuring, providing funds, wherever necessary, for compensation of employees affected by restructuring or closure of industrial units both in the public and private sectors and providing funds for employment generation schemes both in the organised and unorganised sectors. A total of 2,17,489 workers had availed themselves of the VRS as on 31.08.1997. The NRF has been strengthened with the setting up of Employee Resource Centres (ERC)/Employee Assistance Centers (EAC). The EAC network has been extended to additional locations where there is a substantial work outflow and
presently, the scheme has coverage of 49 locations spread over 16 States through 13 nodal agencies.

**B. Initiatives at the State level**

The need to reform Public Enterprises was felt long ago (GOK, 1957) in Kerala. The Government constituted many study groups, committees and boards to study and spearhead the process of reforms in the public sector. Some of the notable interventions by the Government of Kerala to restructure SLPEs are discussed below.

**Holding company Experiment**

Towards improving the performance of the SLPEs, the Government of Kerala introduced the concept of Holding Company in the State. The Kerala State Industrial Enterprises (KSIE) was set-up in 1973 and seven companies were brought under its control as subsidiaries. The objective was to bring together related companies in a sector under a holding company, which would develop necessary expertise in various specialized areas of management and would render useful services to subsidiary units. This experiment was a failure (SPB, 1990; SPB, 1997) primarily because the subsidiary companies had nothing much in common by way of technology or market. The holding company concept did not produce encouraging results even in the more homogeneous groups like Kerala State Electronic Development Corporation (KSEDC), Kerala State Textiles Development Corporation (KSTDC) and Steel Industrial Kerala Limited (SILK). Conflicts of interests between different boards, and dual accountability of subsidiary companies to the government as well as to the holding company have created administrative problems.

**Enterprise Groups**

Given the context of holding company failure, the task force on Public Enterprises for the 9th plan proposed Enterprise Groups. It was originally conceived for the 8th plan but could not be implemented but was strongly recommended for the 9th plan. Under this arrangement enterprises in the same sector were put under a common chairman who had only minimum administrative set up for liaison with subsidiary companies. The chairman
of the group was intended to function as friend, philosopher and guide to the chief executives of subsidiary companies and head a group coordinating council. The council would work on the basis of consensus with no formal mechanism as in the case of holding companies. Though it looked ideologically and conceptually good, in practice this experiment also did not produce any meaningful results.

**Closure and Privatization of SLPEs**

Efforts for closure of unviable units and for attracting private participation in potentially viable units started in 1991 with the announcement of the industrial policy. The need for disengaging from SLPEs that were to be commercially run was underlined and ten chronically sick loss-making units were listed for disinvestments. Even though the work was entrusted to KSIDC and BPE, progress could not be achieved because of political and organizational problems. Even though the government failed to bring private investments in the SLPEs, certain unviable companies like The Chalakkudy Refractories Ltd, Kerala State Coconut Development Corporation Ltd and Kerala Special Refractories Ltd were closed down and operations were stopped in Trivandrum Spinning Mills Ltd and unviable divisions of certain SLPEs like Kerala Soaps & Oils Ltd. Subsequently, around 2400 persons were brought under the Voluntary Retirement Schemes. The focus of budgetary assistance shifted from providing working capital support against cash losses made by the SLPEs to One Time Settlement of Government guaranteed liabilities and implementation of Voluntary Retirement Schemes.

**White Paper on SLPEs Under the Industries Department**

The government has published a White Paper on SLPEs under the Industries Department in 1998. It was (GOK, 1998) an attempt to examine, analyze and identify the factors that have contributed to the then State of affairs of enterprises under the industries department. The document covers 60 enterprises and 12 Co-operatives under the Industries Department. The White Paper was a laudable step in the reform context as it pointed out the major issues relating to SLPE performance and the need to pursue turnaround attempt more seriously.
Setting up of Specialized Institutions

Towards providing support and expert guidance from the government side, specialized institutions like RIAB and ERC were set up in 1994 and 2001 respectively. It indicates the State government’s strong wish to pursue turnaround measures vigorously. A UNDP-assisted pilot project on Public Sector Reforms has been implemented in Autokast, KSDP and KSSCL with guidance from Management and Training Services Division of the Commonwealth Secretariat, London. It was primarily an initiative on the part of the RIAB. However, the results were not so encouraging as these companies have continued in severe sickness.

Approach Paper on SLPE Reforms

The Approach Paper on SLPE reforms (ERC, 2001) contained the basic approach of the Government to restructure PEs. It opined that in the changed circumstances, except in the case of infrastructure creation for hi-tech industries, roads, public distribution systems, transportation facilities in remote and financially unviable locations and for public health, hardly any public purpose would be served by the SLPEs that were unable to sustain themselves. The SLPEs which imposed an unsustainable burden on the exchequer were to be restructured, ensuring a safety net to the workers, with investment from the private sector. According to the ERC, the SLPEs’ planning expansion / diversification / restructuring could accept private investment.

The objectives of restructuring as conceived by ERC were:

a. To stem further outflow of scarce public resources to sustain the unviable PSEs;

b. To reduce the public debt that was threatening to assume unmanageable proportions;

c. To use the proceeds of restructuring to meet employee separation costs, settlement of creditors including financing institutions and other liabilities on the government, for creating safety nets for employees and budgetary support for infrastructure.

The framework for intervention suggested by the ERC with regard to SLPEs was to operate at four levels, namely, national / State policy for public sector reforms, sectoral
restructuring programme keeping in mind market structures, enterprise level re-engineering efforts to make it attractive earning assets and capacity building in the post-reform environment by strengthening corporate governance. As a policy, the ERC proposed that until the Government took a decision on the restructuring package of the SLPEs and cash losses not to be funded from the budgetary allocation, any further investment for capital up-gradation or margin money for working capital in SLPEs must be by accessing commercial borrowings or private investment without Government guarantee.

Along with measures taken at the macro level, many micro or enterprise level measures were implemented as part of restructuring PEs. Apart from the macro level changes, the ERC has proposed a host of strategies that could be implemented at the enterprise level. The restructuring strategies proposed by the ERC include seeking investment by a strategic partner in diversification and expansion, merger of SLPEs having the same line of activity, concluding One Time Settlements of liabilities to Financial Institutions and Banks, preparation of Employee Separation Schemes, sale of equity to the public / financial institutions, management contracts, leasing of production facilities and closure of unviable divisions / SLPEs, implementation of competitive incentive schemes, implementation of retirement schemes and institution of safety nets, moving away from its ownership and financial support to SLPEs, rationalization of employees, privatization, providing quality services to customers at economic and reasonable prices, accessing commercial borrowings or private investment without Government guarantee, strengthening Corporate Governance, Public information campaign, seeking support from international development & reconstruction agencies and bilateral donors, conversion of government loans into equity, setting off accumulated losses against equity, organizational restructuring, appropriate managerial interventions, and need-based working capital through private participation.

The Economic Review (1993; 2000) published by government of Kerala pointed to some of the strategies adopted as part of revival or turnaround in SLPEs. It includes budgetary control, better working capital management, improved operational efficiency,
streamlining production, R&D initiatives, enhanced capacity utilization, modernization and technological up-gradation, conversion of loans to equity, share capital reduction by writing off accumulated losses, OTS of dues to financial institutions, modernization, factoring of debtors, sale of unwanted assets, business reengineering, use of information technology, strategic tie ups within the policy framework, professionalisation of management, employee training, functional autonomy through performance contracts, strengthening of appraisal and monitoring mechanisms, moving away from continued dependence on government protection, building an overall culture of productivity and efficiency, managing competition from domestic and foreign companies, controlling and cutting cost at every level, adoption of appropriate man power planning policy, introduction of modern production systems and technology, improvement in working conditions, ensuring quality and productivity standards, and managing change through the collective effort of management, trade unions and government.

The task force on the public sector for the 9th plan (March, 1997) suggested many measures like appointment of full-time functional directors, selection of directors and CEO through PESB, enhanced training for middle level management, legislation to reduce the number of unions through referendum, enhanced autonomy through MOUs, fixing responsibility equally for government nominees and CEO, constitution of works committees, quality circles, labour participation in all levels including Board, production committees, training for directors, betterment of government-PE interface, shifting government focus more in the nature of facilitator and Enterprise groups for SLPEs in similar line of business.

The task force (SPB, 1990) on the Public Sector for the eighth plan suggested many measures including the Enterprise Group, employee participation in management, ‘working together committee’, ‘quality circle’ and ‘grievance committee’, Board reconstitution with one-third representation each for functional directors, employee representatives and government nominees, professionalism in Management, adequate tenure for Managing Director, better monitoring and control mechanisms with people having adequate industrial exposure at the Secretariat, implementing MOU system,
enhancement of capacity utilization, modernization and diversification, disinvestment in selected units, converting government loans into equity and new joint venture projects.

The Economic Survey (2004-2005) suggested some measures for improving PEs functioning, which include (a) Distance Public Sector units from politicians and government machinery by means of independent boards, (b) Encourage direct labour participation in Public Sector equity to improve productivity and (c) Disinvestment of equity (except in strategic areas) to public.

3.4 Conclusion

Public Enterprises in India have made forays into almost all areas of economic activity. The considerable increase in the number, employment and investment over the years has made PEs a major constituent of the Indian economy. Being a major constituent, the PEs have considerable influence over the Indian economy and consequently over the well being of each Indian citizen. As a major tool in the hands of the government to control the economy on the desired lines, the PEs were given lots of support and encouragement. However, the performance of PEs was not satisfactory. A need was, therefore, felt to wake up PEs to provide what was expected of them. India is all set to make a big leap in economic development with her vast human resources. It is said that the twenty-first century belongs to India as she has immense potential for growth and development. In the changing world scenario, the PEs in India need to retune their focus and change the way in which they are run so as to become a major accelerator of economic development in future. The rejuvenated PEs could definitely increase the State’s capacity to influence economy and can ensure the welfare of her people. Proven turnaround measures in the public sector context can be an effective tool in the hands of PE management to rejuvenate/revive large number of sick or underperforming units in the Public Sector.
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