CHAPTER 1

INTRODUCTION

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(A) **Background:**

In order to gear up the tempo of rapid industrialisation, the Indian polity and economy committed itself towards the philosophy of 'Centralised Planning' in bringing about the economic transformation through 'Democratic Political Framework' in the post-independent India. During the sustained efforts of the last 40 years of planning Indian economy and polity had witnessed enumerable hurdles and problems in reaching its goals of removal of poverty, illiteracy and bringing up of the society based on the foundations of economic equality and social justice.

Even after passing through the various experiments and experiences of the last 40 years of planning many of our objectives enumerated in the constitution, Five Year Plans have either remained untouched, neglected, and whichever are tried for are still unresolved or have remained in words only. The pendulum of progress had swung so rapidly, that it failed to show any significant development in growth rates either in agriculture or in industry.\(^{(1)}\)

On the political forefront, the climate had remained so unhealthy wherein the soul of democracy, the liberty,
fraternity and equality have ever hardly found a place of its own and a small fragmented group of opposition had hardly any effective role to perform in the politico-economic life of the country. It almost seems that the nation is on the march of single party democracy, if it is so called right from its independence, with an exception of 'Janata Rule' for three years from 1977 to 1979, the Congress has all the way dominated the political and economic life of the country.

Pandit Jawaharlal Nehru the trusted disciple of Mahatma Gandhi, with all his love and sympathy for democratic idealism went ahead with 'industrialisation,' and paved the path of mixed Economic Philosophy wherein the private and public sector had its own role to play in India's economic development. Pandit Nehru saw upon steel and fertiliser plants as 'temples of Modern India' and the public sector as a whole had to perform the role of "Commending the heights of Economy". It seems that economic and political ideas and ideals went hand in hand in Nehru era.

Even with some progressive steps like "Bank Nationalisation" on 19th July, 1969, Indira Gandhi's economic policies could not help nation on the strides of self-reliance as an headway towards the establishment of socialistic pattern of society. The demand for the bank nationalisation in
India was as old as the adoption by the Congress Party of its socialist goals. It received added emphasis in "Ten Point Programme" of A.I.C.C. It has been also pointed out by Estimates Committee of Lok Sabha headed by Mr. R.K. Sinha that, whether the finances from the public institutions are going into productive uses in larger public interest, banks did not seem to have any machinery to see it. On the contrary the International Monetary Fund (IMF) and World Bank loan episode in 1981 gave an impetuous towards liberalisation of economic policies giving a private sector more upper hand on the national economy and free flow of foreign capital with export promotion and import liberalisation eventhough it was made very clearly by the then Prime Minister Late Indira Gandhi, that India would not accept any advice from IMF that was incompatible with the nation's policies accepted by the Parliament.

In the late Rajiv Gandhi Government period the stress was given on economic liberalisation, wherein the private corporate sector enjoys the more freedom in the areas of electronic goods like Televisions and Computers and automobile industry. Import of foreign technology and capital through multi-national corporations have become more easier and their appears to be a general trend towards privatisation of public sector big enterprises. It is also worth making a note here, that the "Monograph on the Performance Status
of Central Public Enterprises compiled by the Department of Public Enterprises which has been made available to Trade Unions Organisation, makes it very clear in the meeting that each of the 58 public enterprises are deemed sick. The monograph also shows that closing down these sick enterprises will involve heavy financial as well as other costs. Closure of these will take away the jobs of over four lakh employees. Payment of compensation to them at a rate of Rs.1.5 lakh each will involve an outgo of over Rs. 6,000 crore.\(^4\) The recent IMF - World Bank recommendations is also of privatisation, not reform and independence of public sector enterprises.

After committing towards centralised planning, the techniques and tools which ran through the economic development process, particularly the Industrial Policy Resolution of 1956 carries more importance. However, the subsequent changes brought in it so as to make it more appropriate with the plan objectives helped giving an approach towards building the industrial base through the public and private sector in a mixed economy in the light of shifts made in plan investment allocation in different sectors, the idea of public sector, its genesis and objectives, and the overall performance has been reviewed in Chapter-II.

In measuring the performance of the various economic sectors of the national economy on the achievements of the
macro economic objectives, the Indian public sector might have proved to be effective in general (5) but if the overall performance of the public sector industrial and commercial enterprises is observed one would certainly be stunned to look at the persistent losses incurred by many of these enterprises.

Public sector is expected to function as locomotive of capital formation for establishment of socialistic pattern of society. There is hardly any doubt about the idea of subsidising the services and basic needs like food, water, shelter and some basic infrastructure to agriculture and industry for public interest at large in a long run, but for the basic and heavy industries in public sector if put on the same logic it would be a drag on heavy financial investments in public sector industrial and commercial enterprises under the mask of social benefit and misconceived philosophy of socialism.

Various authorities on public enterprises management and economists when emphasising the profitability as an objective, a basic and foremost important criteria to measure the financial performance of any business of industrial undertaking as used in private corporate financial performance measurement is not only essential but is a must for public enterprises too. Chapter-III takes a detailed review about the performance evaluation criteria in public
enterprises. It is needless to say that profitability would be the additional source of financing the budgetary resources allocation and contribute thereby to the more effective governmental planning efforts.

The role of profitability in the Indian public sector enterprises has always remained in dubious vis-a-vis price policy, which has seriously affected the capacity utilisation. The more appropriate approach is to adopt such pricing policy which would generate the capital accumulation process in public sector enterprises, which in turn would assure the utilisation of idle capacities of production by re-investing such capital and strengthen the states role in the national economy.

Public sector management will not bear the fruits if the government itself doesn't delink from the authority and makes the public enterprises more responsible for its success and failures. Professionalism will come only when public enterprises managers are held responsible by giving full authority and not by giving the autonomy by keeping the ultimate authority in the hands of the government. The line of demarcation between internal autonomy of the undertakings on the one hand and the authority of the government and Parliament on the other seems to be blurred. \(^6\) Parliamentary control over such enterprises, overshadowed by the social
benefits could gain no returns on the capital investments made in many of our public enterprises. This ultimately had led to the "redefining the role of public sector enterprises in the system of mixed economic planning."(8)

In the recent years, since 1991, India's economic policies have been directed towards "Liberalisation" of economic controls for giving the private sector a full freedom by relaxing administrative controls.

At the same time philosophy of "Privatisation of the public sector enterprises" has also been propagated due to the International Monetary Fund's policy prescriptions. Especially, Mr. A.W. Clausen, has strongly pleaded the case for privatisation and policy reforms for strengthening the role of private initiative. The policy of protectionism seems coming to an end with import liberalisation and welcoming of foreign techno-capital import seems to be rampant.(9) With some spectacular gains and experience of the Indian Planning efforts during 1951 to 1965, it is now we are on the way to give up the path of bringing the "Socialist Pattern of Society". What is required at present in the fresh thinking towards our socialistic goals overwhelmed by the social benefit objectives and to build-up sound foundation for efficient and effective running of the public sector as a whole and commercial and industrial public enterprises in particular, in order to assure
operational efficiency and appropriate rate of return on capital employment in such enterprise.

To adopt the criterion of profitability as performance measurement of the operational and managerial efficiency alongside the social gains. Professionalisation of public sector management than to privatise the public sector, allocative justice through the centralised planning and distributive justice through socialised market process are highly required to counterband the neo-techno-capitalist imperialism imposed through the medium of international financial organisation like IMF and IBRD, led by the capitalist's consortium of big seven.

It could be the case, that due to the high capital, long questation periods of such enterprises required in basic and heavy industries based on modern technology may not be in a position to be commercially viable till it reaches to and optimum level of production but after it achieves such optimum level, it must start contributing in terms of positive monetary gains viz., return on capital employed, which in a long run acts as an internal stream of resources for modernization and modifications in commensurate with technological changes.

Beyond the socialistic rhetoric in a centrally planned mixed economy model the state tends to be capitalistic in
nature, if socialist ideals are not followed by the bureaucracy and causes harm to the economic functioning of the state enterprises as well as creates apathy towards socialist objectives in the private sector corporate management. "As regards increasing efficiency in public sector enterprises, this is in large part a question of creating a managerial personnel that knows its job."(10) It has been for a long time the eminent private sector enterprise leaders are extravagantly criticising the functioning of the public sector in India, on the ground that, the large number of public enterprises are running heavy losses at the stake of private sector industrial development.

Criterion of profitability as financial performance norm is highly required, than giving autonomy to the public enterprises - in its conservative British sense, which the Indian polity were demanding in pre-independence period.

Profits have altogether becoming absolutely necessary in its new social sense, a 'social profit' as may be named, but it has the same role to play as giving the impetus to the economic activity, may be in a mixed economy or socialist economy.(11)

(B) Research Gap:

While it is still a very controverstal issue whether
full cost-benefit analysis in the industrial, agricultural
or even in infrastructure sector where benefits are
particularly difficult to measure is as yet sufficiently
soundly based to be a good guide for policy makers. (12)
The profitability criterion, the only objective criterion,
holds water, in the measurement of the performance of public
enterprises with reference to its micro objectives (Unit
level objectives) over a short period as well as over a long
period of time, while along with profitability the social
cost-benefit criteria may be applied to evaluate the cost
effectiveness in concurrence with social gains over a long
run, evolving flow of benefits from different sectors for
measurement of the overall national objectives in its macro
sense.

It is also observed that most of the studies judging
the selective efficiency of public enterprises mainly on
the backdrop of financial results using the criterion of
net profitability of the rate return on total capital employed
as an indicator of overall efficiency of public enterprises
has been quite unsatisfactory and far below the expecta-
tions especially when it is viewed in the background of the
relatively satisfactory of superior performance of the
corresponding private enterprises. (13) According to Bakul
H. Dhoklia the choice of appropriate criterion for assessing
the performance of the public enterprises would obviously
depend on the approach that is adopted for looking at the so called "Performance". (14) This has nailed out profit criterion as a narrow commercial angle to evaluate public enterprises performance and has suggested the "Index of total factor productivity" as an alternative criteria. (15) The problem in this regard arises is that, if "Productivity" criteria has a priory ground whether it should reflect on profit and if public enterprises on public sector on the whole shows higher productivity whether there is total absence of productivity in private sector?

With the above line of thinking the need was highly felt to undertake emperical investigations in relation to productivity and profitability, pricing policy and developing a profitability criteria - different from private enterprises. (16)

The present research work is related with the comparative study of "Aluminium Industry" on a selected sample basis to study the profitability, liquidity and solvency along with the capacity utilisation and productivity, input-output analysis and the general trends in costs and other related factors which affect the profitability vis-a-vis productivity.

Since the pre-occupation of this research work is the financial performance evaluation of public sector in India;
which covers the physical performance as well, the compari-
sion is aimed at the public sector aluminium producer
plant, the only one which existed at the time of sample
selection, Bharat Aluminium Company Limited and the another
aluminium producer plant from private sector which is old
and the first in the private sector aluminium plants; Indian
Aluminium Company Limited.

Selection of the sample is also based on the relatively
representative installed capacities, and more over the
aluminium industry as a whole which is regulated on the
"Administered Price Policy" and "Quota-system" for the distri-
bution of aluminium metal to the user industry. The
profitability or the physical performance is not independent
of the administered price policy in aluminium industry,
however, the oldest aluminium unit performed quite satis-
factory in the changing circumstances. Even after the first
aluminium plant came into existence viz., "Bharat Aluminium
Company Limited" in public sector under the commanding
heights philosophy. No attempts have been yet made to
evaluate the performance of this young industry covering the
wide range of criteria on an empirical and inter-sectoral,
inter-plant basis.

According to Schedule 'A' of the Industrial Policy
Resolution which contains 17 industries the future develop-
ment of which has remained as an exclusive responsibility of
the state. In this category the non-ferrous metals like Copper, Lead, Zinc, Tin are included in which mining and processing of these metals are under the full control of the State because of its scarce availability.

Under the Schedule 'B' of this Resolution another non-ferrous metal 'Aluminium' has been included along with other 11 industries, wherein it was expected that the State would increasingly establish new enterprises without denying the private sector its opportunities.

At least in the case of aluminium according to the Industrial Policy Resolution of 1956 it apparently seems that 'aluminium' was listed as one of the industries which would be controlled under the 'commanding heights' philosophy. Interspective of this much of development of aluminium industry has taken place in private sector.

Since industrial policy resolution of 1956 does not make any 'watertight compartments' towards the classification of industries and their development either in a public or in a private sector much of the industries development took place in private sector.

The aluminium industry in particular is perhaps the best example which is being allowed to develop in private sector wherein the multinational companies were also allowed the entry ironically under the basic and heavy
industry category assumed by the Government of India under the industrial policy Resolution of 1956.

However, the decision taken at the Government level to allow the development of aluminium industry in private sector favoured the transnational aluminium giants to expand their smelting capacities in the developing countries after World War-II through 'Equity Participation' changuing the direct foreign investments in India.

The basic problem aluminium industry is facing in the cost effectiveness of the production of this metal. This problem is related with the basic economic and fiscal policy in relation to this industry. With high consumption of electricity required in electrolyses process of producing this metal the production has become highly capital intensive and cost of capital also forms a basic element of cost. High rates of excise duties, high rates of power supply, high rates of basic supplies, besides the high cost of capital, has made the production of this metal costlier which has affected the growth of semis industry in India.

The prices which are fixed by the Government in regard with this metal under the 'Administered Price Policy', sometimes do not cover even the total costs and leaves much gap in retention prices and costs of various aluminium companies producing this metal in India.
(C) **Objectives of the Study:**

The study basically aims at the following objectives:

1. **To** evaluate financial performance of aluminium industry.

2. To find out the causes of inefficiency in selected sample aluminium plants.

3. To study the profitability of the public sector in general and public enterprises in particular under the pressing circumstances of adverse trade and balance of payments position.

4. To assess the need for the profitability criteria to be observed along with the socialist objectives.

5. To evaluate the performance of sample aluminium plants on the profitability criteria in order to judge the extent of commercial management in public sector BALCO in comparison with INDAL.

6. To measure the physical performance on the basis of capital input and output based on per tonne and per employee as to measure the extent of input and output.

7. To evaluate the performance of productivity based on the criteria of 'Index of Total Factor Productivity' and their trends in sample aluminium industry.
(8) To highlight the extent of contribution made on account of interest, dividend, excise duty, taxes etc., on comparative basis in order to evaluate the efficiency of aluminium plants in terms of social gains.

(9) To compare the financial and physical performance of BALCO and INDAL, and to provide suggestions based on the observations and findings under this study.

(D) Period Under Study:

The study covers a period of sixteen years, i.e., from 1973-74 to 1989-90. This is a very crucial period wherein the most of our socio-political and economic events took place basic amongst these are the emergency of 1975 and a change in the political power twice, first when Janata Rule came into power in 1977 and again when the Congress(I) Rule succeeded the holding the power in 1980. In 1984 Mrs. Indira Gandhi was assassinated and in 1985 Mr. Rajiv Gandhi became 'Prime Minister', in 1989 Janata Dal came into power under V.P. Singh's leadership. Again in 1991 Rajiv Gandhi was assassinated and Mr. Narsimha Rao's Government came into power.

With reference to the present research work, amongst the sample Aluminium plant the public sector Bharat Aluminium plant was commissioned from 1974, before which there was no aluminium production in public sector. All capacity was in the private sector.
(E) **Research Methodology**

Given all the parametric conditions of business environment are the same, the enterprises production function must be conducted on the lines of functional efficiency resulting in an increased productivity and thereby increased value of output. Alternatively, the efficient utilisation of the business resources, i.e., total factor inputs must result in the effective contribution towards the net national product (NNP) i.e., national income. What according to J.K. Galbraith is known as the second type of economic growth the 'maximised economic growth', others being 'symbolic modernization' and selective growth in the developing countries. Maximised economic growth implies the greatest possible increase in the total and per capita income and produce. The goal here is the overall increase in output.\(^{(17)}\)

Public sector has grown at a considerably rapid rate and was expected to perform its role more effectively by contributing by way of surpluses to ease the pulls and pushes in the budgetary excercise so as to allow the planners and government to make the allocation of investments in more needed areas of public welfare. But so far as the lower profitability, and sometimes negative contribution by many of the public enterprises, a need for alternative criteria to judge performance of public
enterprises was highly needed and the "criteria of the total factor productivity" has been suggested by Bakul H. Dholakia in his work "The Changing efficiency of Public Enterprises in India", because, according to him "in the context of the growth of national economy, it is the index of total factor productivity that represents the most appropriate criterion for evaluating the overall performance of the public enterprises in relation to that of the private enterprises pure commercial profit.

In the measurement of productivity there are two ways - (1) productivity of independent factor of production i.e., capital productivity, and labour productivity, (2) total factor productivity, i.e., the net output per combined unit of total factor input (combination of capital and labour). The evaluation of performance of one enterprise in relation to another at a given point of time viewed from broader angle would involve direct compassion of the labour productivity as well as the capital productivity in the two enterprises, while the corresponding evaluation over a period of time would involve the comparision of the rates of change of output per unit of total factor input based on the indexes of total factor productivity relating to a given time period computed separately for the two special enterprises.

The index of total factor productivity, which is also referred to as the index of output per unit of total factor
input, is derived as a ratio of the index of net output to
the index of total factor input. Former indicates the
actual growth of net output, while the latter indicates the
extent of growth that would have occurred had the overall
productivity or the efficiency of all factors of production
taken together remained constant during the period under
consideration. It can be inferred from this that, if the
index of total factor input for a terminal year is less
than the corresponding index of net output indicates that
the observed growth of output exceeds the amount of growth
that would have resulted under the conditions of unchanging
efficiency of factor inputs and thereby indicates that the
overall efficiency of all factor inputs taken together has
increased during the period.

This research work with the above theoretical concept
adopts the same methodology as is used by Bakul H. Dholkia
in his study referred above. The research pertaining to
the sample aluminium industry plants Bharat Aluminium Company
and Indian Aluminium Company, a public sector plant and a
private sector respectively by adopting the case study
approach in case of productivity analysis throws light on
the inter-sectoral productivity. Besides the index of total
factor productivity technique, this research uses the
methodology of -:
(1) Ratio Analysis for measuring the profitability, solvency and liquidity in the sample aluminium plants.

(2) Input-output analysis based per tonne and per employee indexes.

(3) Measuring the contribution on different criteria applied for social gains.

(4) Measurement of financial growth and investments and costs trends on percentage and rank basis.

Under the ratio analysis technique the model structured for measuring the "Financial Performance Evaluation in Public Enterprises" by S.C. Bansal has been used. (18) This covers the seven areas of evaluation and various ratios. As this is a model structures for public enterprises, it is also applied for a private enterprise too in the sample aluminium industry viz., public sector plant (BALCO) and private sector plant (INDAL); comparison in all the seven areas.

(F) Source of Data:

In consonance with the objectives of the study and the case study methodology adopted to measure the financial and physical performance of the sample aluminium industry plants, the required data is obtained from the "Annual Reports" of the BALCO and INDAL for over a period under study from 1973-74 to 1989-90.
The annual reports of the sample aluminium plants covers sufficiently extensively the economic and physical data as well; which is very helpful in highlighting the variety of features of aluminium industry.

Using the "Annual Reports" as the basic source of information the study has elaboratively derived the component variables of comparison on which the ratios are based. Appendix-I gives the explanation and definition in regard to these components and variables.

The other data study has extensively depend on the secondary sources like -

(1) Annual Survey of Bureau of Public Enterprises, Government of India;
(2) Economic Survey (Government of India);
(3) Report on Currency and Finance;
(4) Books, Journals, Periodicals and Dailies.

(G) Scope of the Study:

By making the in-depth analysis for the achieving the objectives of this research work with reference to criteria mentioned in methodology which demarks the scope of this research as follows:-

(1) To establish the need for the "Profitability criterion by making all the criteria applicable inter-
changeably suggested by S.C. Bansal and Bakul H. Dholkia in public and private sector aluminium plants and to study the trends in profitability, output, costs and revenues contribution and more vitally the factor inputs and their growth in connection with output growth at -

(1) Independent unit level separately to make observations, conclusions and suggestions.

(2) On the industry level (sample) observations on corporative basis in above areas of study and to pinpoint the strengths and weaknesses of the sample aluminium plants.

(3) To make the suggestions to the Government recommending the -

(a) need for emphasising the profitability criteria for measuring financial growth of the public sector industrial and commercial enterprises and issue a 'white paper' on this crucial aspect side by side the policy directions in the matter of increasing privatisation creeping in the public sector and

(b) suggestions for making the aluminium production more cost-effective and adopting more realistic price formula to make this Aluminium industry's returns as expected by the planning commission; Five Year Plan (6th) as 12% on capital employed.
(H) Outline of the Thesis:

The study is divided into twelve chapters and deals inter-alia the following -

(1) Chapter-I, elaborates the background of the Indian Economy, the changing business and economic environment, and a drive towards liberalisation and privatisation and emphasises the need to observe the profitability criterion for public sector enterprises; Chapter covers the research methodology, source of data and objectives of the study.

(2) Chapter-II considers in detail the genesis of India's mixed Economy, public and private sector and their role, performance of public sector and its contribution in savings and investment in the Five Year Plans. The Chapter also covers the changing emphasis on economic liberalisation and their impact on export-import and balance of trade.

(3) Chapter-III takes a review of the 'Profitability Criterion' being emphasised by economist, planners and academicians.

(4) Chapter-IV deals with the sample aluminium industry in set-up, its problems, the nature of demand-supply and costs and prices.

(5) Chapter-V deals with the fixed Assets Management, of output growth in BALCO.
(6) Chapter-VI deals with the Working Capital Management of total factor productivity and sources of output growth in BALCO.

(7) Chapter-VII deals with the Input-output Analysis Total Factor Productivity and Sources of output growth in BALCO.

(8) Chapter-VIII deals with Fixed Assets Management, Total Factor Productivity Analysis and sources of output growth in INDAL.

(9) Chapter-IX deals with Working Capital Management Total Factor Productivity Analysis and sources of output growth in INDAL.

(10) Chapter-X deals with Input-output Analysis, Total Factor Productivity Analysis and sources of output growth in INDAL.

(11) Chapter-XI presents the comparative profile of sample aluminium plants BALCO and INDAL under study while considering the financial and physical performance.

(12) Chapter-XII summarises the main observations, findings of the study and tried to arrives at the conclusions. On the basis of the findings the study also put forth the concrete suggestions to the independent plants and to Central Government, in order to make the future of Aluminium Industry brighter.

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