Chapter VII

FINDING OF THE STUDY

**H 1:** The role of the Government intervention in the economic development of a country is need based.

Adam Smith, the political economist in his treaties "Wealth of Nations" published in 1776 stated that, "the duties of the state should consist of the provisions of defense, justice and some expenditure for economic and social ends". According to him, the "invisible hand" controls demand and supply and there by price mechanism. He justified free play of market forces.

This theory was criticised on the ground that certain goods and services would not be supplied under pricing system for e.g., defense. Monopolies of private sector provide the opportunity for restrictive practice. This free play of market forces takes into account effective demand (demand backed by money) and there will be social injustice.

J.M.Keynes drew attention to the probable causes of the "trade cycle" and pointed ways to possible remedies in his book titled "The General Theory of Employment, interest and Money" published in 1936. According to him, various kinds of activity in the public sector are necessary to stabilise the economy on a steady course of expansion at full employment.

Failures of the market, depression of 1920s, devastating disaster due to II world war necessitated the need for the government intervention. British and other developed and developing countries created huge public sector to stabilise the economy and to give direction and support.
By the end of the 20th century in the changed economic scenario, public sector had become burden due to various reasons.

Margaret Thatcher, in her biography "Margaret Thatcher: The Downing Street years" said that the government has no business to do business and hence should privatise the public sector undertakings. The successful privatisation in British created international wave for privatisation. Governments intervention in the economy of the country is being reduced.

These three phases establish that the government intervention in the economic development of a country is need based.

This hypothesis is supported strongly by primary data too. 77% of the respondents say that majority of the large enterprises in India belong to the Government and some of them are comparable to the best in the world. 92% of the respondents agree that many institutions like DRDO, ISRO, IISC, BARC, IIM IIT are comparable to the best in the world. In another important question, whether private sector had the capacity to create such industries and institution immediately after independence, 69% say, "no".

Which means Government intervention immediately after independence in the economic development of India was essential. In case of subsequent development, 96% of the respondents say that losses in public sector is due to politicisation, bureaucratisation and corruption. 81% agree that there is lack of autonomy and accountability. 66% of respondents say there is lack of market competition and profit motive, according to 69%, lack of incentives to be productive and lack of disincentives to be unproductive are reasons for public sector inefficiency. Overwhelmingly 84% agree that presence of excess man power is the bane of public sector. The respondents suggest that the government should now withdraw from public sector.
In the interview of the experienced decisions makers, valuable views were expressed. Extracts of the views expressed below support this hypothesis.

1. Public sector has served the purpose for which it was created.
2. In the socialistic pattern, public sector has played its role satisfactorily.
3. In the liberalisation strategy followed since 1991, government should privatise and come out of business.
4. Today's world is competitive, quality conscious and customer oriented.
5. Politicians are not interested in industry but they are interested in vote bank.
6. The very role of public sector has changed now. The market has changed. Then ethics were different. There were protected markets. Public sector has failed to compete. They do not have working capital and they do not have budgetary support.
7. The role of the government in the economic development is being reduced. Thrust areas are changing from manufacture to infrastructure.
8. Government is umpire but not a player in economic game. It should decide the rules of the game.

Hence the involvement of the government in economic development is need based and it is a changing role from the role of the entrepreneur to repulator and vice versa.

H-2: Privatisation is not a panacea for all the ills of the public sector.

Margaret Thatcher's initiative and success in privatisation – as claimed – created international wave of privatisation. The medium term results of privatised companies and detailed study conducted by many researchers throw light on privatisation and its after effects. The study of these results is most valuable input for privatisation experiments in India.
As observed in the review of literature, ownership is not a criteria for performance. In other words, public sector need not be inefficient and private sector need not be efficient just because it is in public or private sector. There are profitable, successful companies in public sector and loss making, mismanaged companies in private sector. Hence according to Prof. Raja Chelliah, bottomline is efficiency in resource management and not who owns enterprise. Prof. V.V.Ramandham says, privatisation ought to focus steadily on efficiency gains as a result of privatisation, rather than on divestiture per se. John. B.Goldman and Gary.W.Loveman argue that, the real issue is managerial accountabilility, not the form of ownership.

Improvement in performance is not a product of change in ownership. Performance improvement is a complex process. According to the study conducted by David Parker and his team on the performance of ten privatised companies in the UK, performance is the product of many and often subtle forces. Changes in the internal environment occurred independently of the status change (i.e., public private and vice versa) Internal environment needs to be congruent with external environment. This study proves that, loss making public sector undertakings will not make profit just because they are privatised. On the other hand, all private sector undertakings are not profitable and well managed just because they are in private sector. It is responsiveness and responsibility of the management that matters but not the ownership.

Bob Rowthorn and Ha-Joon chang said, “In our view the question of public enterprise efficiency can’t be divorced from politics. Such efficiency depends on the attitude of the state towards items like competition and budgetary policy, which in turn depends above all on the ability of the state to insulate it self against conservative pressures from both inside and out side the enterprises.
Where the state can insulate itself adequately public enterprise may be very bit as efficient as private enterprise, whilst offering additional economic and social advantages. Where the state can't insulate itself, privatisation may well lead to greater efficiency, but this can't be taken for granted since the same conservative forces previously at work under public ownership may continue to influence state policy even after privatisation.

On the post privatisation effect in the UK, Christos Pitelis and Thomas Clarke said, "the frequent intervention of the regulators has been a crucial factor in maintaining the responsiveness of the privatised monopolies to customer concerns".

Gretton et al expressed "In the absence of competition, the creation of regulatory agencies was the only means to rescue the consumers from the possibility of naked exploitation".

The champion of privatization Margaret Thatcher expressed in her biography that "Privatization itself does not solve every problem, though I shall show, it certainly exposed hidden problems which could thus be tackled. Monopolies and quasi monopolies which are transferred to private sector, need careful regulation to ensure against abuses of market power".

The purpose of many Governments in privatisation is not improvement in performance or providing better service. Abromeith (1988) noted "the state assets are sold because state treasures want to raise money without printing it".

Thomas Clarke (The political economy of privatistion P.207, Routledge, 1993) said on the UK experience, Privatisation was pursued for political reasons
related to Government's troubled attempt to manage the economy and
stay in power, rather than the economic pursuit of efficiency in the
industries concerned.

Kirk Patrick (1968) argued that the transformation of public monopolies in to
private monopolies was safer and easier option though it under mined the
governments claim (the UK Govt.) concerning the future efficiency of the
companies, and contradicted economic theory. Government propounded:
'allocative efficiency is a function of market structure rather than ownership.
Thus in the absence of competition, denationalisation is unlikely to result in
major gains in efficiency performance'.

In the rush for privatisation, performance analysis of private sector is not
undertaken. This has remained a blind spot. As per the RBI, report (Report on
currency and Finance (1997:98) there were 2,37,400 SSI and non SSI sick units
and Rs. 13,787 crore of bank credit is locked up in these units. Analysis of the
sickness by S.S.Srivatsava and R.A.Yadav, shows that 48.9% of the sickness is
due to management incompetence and 31.9% is due to production problems and
24.2% is due to marketing and miscellaneous problems.

The primary data collected also supports the hypothesis. It throws light on the
private sector trustworthiness and performance.

According to 47% of the respondents private sector management is not reliable
and honest 40% say it is reliable and honest. 41% of the respondents are of the
view that, private sector management exploits shareholders through stock
exchange manipulations but 35% are against this opinion and 24% are
undecided.

48% of the respondents support the view that, private sector management
breaks rules and manages. According to 63% of respondents in the absence of
competition, private sector sells poor quality goods, charges more than its value to its customers. 50% of the respondents are of the view that, regulatory authorities like SEBI, Registrar of Companies, Stock Exchange, Government authorities have not discharged their duties with out fear or favour. Only 27% say that duties have been discharged properly and 23% remain undecided. 86% of the respondents are of the view that, majority of the companies in India are family managed but not professionally managed.

In response to open ended question regarding the strength and weakness of private sector, very apt responses have been given and this should kept in mind as an input for Privatisation process.

**STRENGTHS**

(i) Profit motive is the greatest strength.
(ii) Thrives in competition
(iii) Responds to market changes immediately. Fast decision making.
(iv) Better productivity & cost controls.
(v) Efficient work culture and team spirit.
(vi) Free hand in dealing with employees.
(vii) Rewards efficiency and punishes inefficiency.

**WEAKNESSSES**

(i) Profiteering is the greatest weakness.
(ii) Highly self-centered. Survival at any cost is the strategy.
(iii) Absence of good corporate governance.
(iv) Lack of transparency and accountability to investors
(v) Lack of credibility of management.
(vi) Lack of adequate capital for large scale projects
(vii) Exploitation of constituents like workers and consumers.
(viii) Disregard for environment protection.
(ix) Poor in discharging social obligations.
(x) Not a good corporate citizen.

The opinion expressed during the interview conducted is summarised as follows:

- **Private Sector is not a holy cow but it delivers.**
- Privatisation is required in certain specified cases. Privatisation should be the last step. Privatisation without lot of preliminary work is not going to be successful.
- Welfare of the unit is the objective of privatisation.
- Private Sector has lot of bad units. We have successful and loss making units in public as well as private sector. Factors for success of public sector or private sector are same. In public Sector politicians misuse power and in private sector promoter misuses.
- Privatisation is not a mantra. There is a blind spot about private sector.
- Privatisation is not a cure. It is not a magic pill.

The above mentioned facts and valued opinions clearly prove that, ‘privatisation is not a panacea for all the ills of public sector’.

**H-3: Privatisation model is country specific.**

Prof. V.V.Ramnadham (comparative Advantage of enterprise models – A conceptual analysis published by CIER 1991, New Delhi) points out that an enterprise, organised in whatever sector, possess comparative advantage. The comparative advantage reflects itself in the performance efficiency. The paper pleads for the adoption of comparative advantage as the guiding principle of policy decisions on organisation models. It contains that a (financially) losing organisation is not essentially the one which has lost the competitive advantage.
Dr. M.B. Athreya (Alternative models for privatisation of people-isation-published by CIER, 1991, New Delhi) evaluates different types of intervention towards privatisation: government majority (51% plus), government controlled (51% - 49), Joint sector (26% + 25% + 49%) and total privatisation.

British model of privatisation consisted mainly of creating millions of new shareholders, infusion of foreign capital, application of various other methods of privatisation like outsourcing, franchising, auction etc depending on the circumstance of each case.

Newzealand model consisted of corporatisation through State Owned Enterprises Act. The Act specified principles governing the operation of state enterprises; authorised the formation of companies to carry on certain government activities and control the ownership there of, established requirements about the accountability of state enterprises and the responsibility of ministers. It also followed combination of other methods like selling some shares (Bank of NZ), partial stock floatings (Air NZ), sell all shares (Petro Corp.), sale followed by partial float (telecom), divest some physical assets (Railway Corp.), divest financial assets (Govt. Property Services), sell all assets (shipping Corp.), sell usage right (Forestry Corp.), sell corporate entity (state insurance).

In case of Germany, the task of privatisation of the former state-owned enterprises was assigned to a state trustee agency, the Treuhandanstalt (Treuhand). It is responsible for more than 8000 enterprises, 10,000 small shops, restaurants and service firms, 2.3m ha of arable land, 1.9 m ha of forest, and the assets of former GDR parties, mass organizations, the army, and the GDR security service. Treuhand's objectives of privatisation were as follows.

1. Transfer the state owned wealth in to private ownership.
2. Achieving competitiveness in respect of as many companies as possible.
3. Supporting a structural change in the economy.
4. To provide capital to companies which can be restructured successfully.
Italy followed the method of listing and sale of shares, Japan's model of JNR privatisation involved creation of companies like JNR Settlement Corporation, Seven railway companies, Shinkansen holding corporation. Assets and debts were transferred to these companies. Romania and Czechoslovakia followed the voucher method for privatisation.

Privatisation model or the methodologies followed has to take into consideration the following parameters. These are country specific. Hence the country specific model.

1) Market conditions: Competitive or non-competitive.
2) Capacity to regulate the markets.
3) Political conditions of readiness i.e., political desirability, political feasibility and political credibility of the Governments.
4) Governments defined objectives, time scale for privatisation, methodologies to be adopted, policy formulation on various issues, political will and preparedness to execute these policies.
5) Sectoral analysis of various sectors to be privatised.
6) Strength of capital markets.
7) Transparency in stock exchange operations.
8) Capacity of the private sector: professional management, financial strength, technological adaptation, corporate governance, quality consciousness and customer orientation.
9) Macro economic conditions of the country: GNP, per capita income, poverty estimates, rate of unemployment, level of industrialisation and state of the economy at the time of privatisation.

The primary data collected has contributed substantially in supporting this hypothesis:

In response to the questionnaire on Indian model, 86% of the respondents are of the view that, India should have its own model of privatisation. On the question of privatisation vs. restructuring, 54% of respondents prefer
restructuring and 43% prefer privatisation through sale of shares and assets. 52% of respondents are of the view that the government should sell shares of blue chip companies and 45% oppose this view. After privatisation, according to 43% respondents these privatised companies will be controlled by industrial houses. 32% of the respondents hold the view that they will be controlled by others other than industrial houses, 25% of the respondents remain undecided. Overwhelmingly 81% of respondents expect the government to deregulate i.e., open all the fields of business to private sector to improve competition, efficiency and better service to customers.

The respondents have suggested the following models in response to questionnaire.

I. Privatise all sectors except sectors dealing with security, strategic aspects, sovereign matters and social sectors.

II. Sell only 40% of Government shares retain 60%. 1/3rd of the Board be selected by 40% shareholders.(i.e., other than Government) Board should have professionals and experienced businessmen. Chairman should be independent of Board of Directors.

III. Privatize irrespective of certain disadvantages in the present context. Government should play the role of regulator. Participation of employees in equity holding be encouraged.

IV. Private sector with social responsibility, accountability for investors, professionalised management, cooperative approach with the Government on key issues is the ideal model.

V. Restructuring or controlling through MOU is half hearted measure and hence privatise. Sell unviable units, sell shares of viable units more than 51%. Deal firmly with unions and political parties and have Board of Professionals.

VI Shareholding Pattern of ideal model be as follows:

Government ownership 40%
Professional Management 40%
Employees Ownership 20%

VII Joint sector models like that of Maruti Udyog limited is also an ideal model.

During the interview with the select sample, the following suggestions were made for privatisation/restructuring.
1) Privatise power transmission/distribution.
2) Privatise core sectors in phased manner.
3) Public sector in infrastructure could be continued for some more time.
4) Follow ABC analysis and find out which sector could be privatised first.
5) Privatisation strategy has to be sectorwise. Each undertaking has to be studied and see how it could be privatised.
6) Government is a umpire not a player in the economic game. It should decide the rules of the game.
7) Restructure the public sector. First define core, structural, directional. Bring in commercial principle. Restructure individual companies, part privatise them. Joint sector if required. Giving them authority and responsibility. Incentive for growth, non-interference by political decisions, professionalise boards, factor the debts, sell-off excess land and machinery. Use finance raised by such means for internal renewal, have centralised direction, no political employees, have professionals of eminence on the board. It requires political will. Bureaucracy will agree if political will is there.

The secondary and primary data given above fully validate the hypothesis i.e., "Privatisation model is country specific" and however successful other models may be they can't be emulated in toto.
CONCLUSIONS OF THE STUDY

The study after analyzing political and economic aspects of Government intervention as regulator, investor, entrepreneur, developer of infrastructure, provider of basic necessities under changing economic and political conditions of the country, concludes as follows:

A. Role of the Government in the economy of the country:

I. Government intervention in market regulation is acceptable if there is market failure not otherwise.

II. Government’s role as investor and entrepreneur is expected in case of developing countries, which are lacking funds to initiate industrial activity, lacking entrepreneurial talent and technical know-how. Government should withdraw in phased manner once the private sector is developed and competition in the market is enhanced.

III. Government has a greater role to play in providing basic necessities like drinking water, food, shelter, basic education, roads and transport, power to villages for light and irrigation, reducing unemployment, alleviating poverty and providing social security particularly in developing countries. Government should involve fully in this because, this is an area where private sector has little role to play. As the Government withdraws from industrial and commercial fields of activity, it should invest the proceeds in vital areas of human development.

IV. The role of regulator is the most important one in the privatisation process and privatised sectors. The government should act as regulator by creating independent regulatory authorities.

V. The experience of 20th century from Adam Smith to J.M. Keynes to Margaret Thatcher proves that the role of government in the economic
development is changing. In the *first phase* the role is that of creator, initiator for the development. In *second phase* it is the role of competitor with private sector. In the *third phase* it is the complementary role or supportive role to private sector. This can be compared to Hindu Mythology i.e., role of lord Brahma, Vishnu, Maheshwara. Lord Brahma is the creator, Lord Vishnu is the protector and Lord Maheshwara is the destroyer. In the *first* phase the government should create a strong role for public sector (dominant role in comparison with private sector i.e. “commanding heights”) in the *second* phase as protector it should develop and nurture private sector to take over and in the *third* phase, reduce the role of the public sector and play the role of regulator.

B. Privatisation: Purpose And Process.

I. The main objective of privatisation has been improvement in the efficiency of the privatised undertaking and increase in the competition. Hence privatisation should achieve these twin objectives.

II. Privatisation is not a panacea. Privatisation is not a prescription to cure all the ills of the public sector. Privatisation is one of the many measures to be undertaken to improve the efficiency of the organisation. There are many more measures to be undertaken by the government, pre and post privatisation. If privatisation has to succeed, all these measures should be given due importance and must be undertaken with all the earnestness and commitment.

III. Privatisation policy should be preceded by economic liberalisation measures like deregulation (i.e., entry and exit in to a sector is not regulated), removal of operational barriers, simplification of labour laws with the power to hire and fire, import liberalisation, removal of price control and subsidisation; liberalisation of foreign direct investment,
corporate law reforms (i.e. Companies Act, Securities Act, MRTP, FEMA, Labour laws); and financial sector reforms.

IV. Privatisation without satisfying certain preconditions like political feasibility, desirability and credibility will not succeed in the long run. The Government should have statement of objectives of privatisation, decide all the policy matters related to privatisation in advance and should have serious commitment from the top.

V. Privatisation measures should be preceded by improvement in the stock exchange operation, deepening and widening of capital markets, measures for protection of small investors, legislation for transparency in corporate affairs.

VI. Privatisation without the change in the internal environment i.e., management restructuring, marketing strategies, commercialisation, cutting the deadwood, inflow of new talent, technological upgradation, will not yield any positive results in the performance of the privatised undertaking.

VII. Global perspective of privatisation makes it very clear that, different countries have followed different routes to privatisation. Purpose and methods of privatisation suitable to country situation should be adopted.

VIII. British privatisation model is not a emulative model for India in toto but British privatisation has many lessons for India to learn. Few of them are: high degree of political commitment, clarity of objectives, well defined policies and methods of privatisation, creation of political and corporate mind set for privatisation. India can benefit from knowledge of the problems of creating privatised monopolies without inducing competition, exploitation of consumers in the absence of regulators, disproportionate benefits enjoyed by the management at the cost of workers, losses suffered due to sale of shares of public sector undertaking in a hurry to push through privatisation at any cost, increase
in the foreign holdings of privatised PSUs, relationship between ownership and performance, problems of privatising natural monopolies and the concept of holding golden share in privatised company.

C. India – A Case Study:

The following conclusions have been arrived at taking India as a case study for privatisation.

Public Sector:

1) INDIA being a developing country, Government has an important role to play in the economy.
2) Public sector in India has served the purpose for which it was initiated through Industrial Policy Resolutions.
3) Indian public sector lost its purpose and focus when it entered into the area of manufacturing consumer goods and service sector like hotels.
4) Public sector has become a political tool in the hands of politicians. It has lost economic sense due to excessive political interference.
5) Bureaucratisation has robbed the public sector undertakings of its managerial talent, created sycophants, rule ridden setup, non-responsive approach to consumers and competition.
6) Public sector in India is in a state of coma due to lack of: commercialisation, incentives for efficiency, disincentives for inefficiency, technological upgradation, funds to invest in expansion and upgradation and political will to take economic decisions in the interest of the undertaking as well as the country as a whole.
Private Sector:

1. Indian private sector has grown substantially compared to its size and spectrum five decades back.

2. The licensing raj, draconian laws, lack of level playing ground between public and private sector, lack of availability of funds through capital markets were the main reasons for the slow growth of private sector.

3. Family controlled industrial houses on one hand and fund starved small-scale sector on the other dominate private sector in India.

4. Family controlled industrial houses have not nurtured managerial talent to occupy the top positions. The decisions are often personal and whimsical to suit the dominating family members. Family disputes have affected the growth very badly.

5. Even though the small scale industries have contributed substantially for employment and exports, they have remained low tech due to lack of funds, scale of operations make them unviable in the long run. Sufficient managerial talent is not available with SSI and many large industrial houses exploited these units for their growth.

6. Sickness in private sector (large and small scale sector) is alarming. Huge funds of public sector banks and public is locked up in these sick units.

7. Private sector in India except in few cases is not known for honesty, integrity and fair play in dealing with consumers, employees, investors, government, bankers and creditors.

8. Regulatory agencies have not discharged their duties without fear or favour.
Restructuring, Disinvestment And Privatisation:

1. India is at the crossroads of continuation with public sector or privatisation (euphemistically called as "disinvestment") of public sector. Being a developing country, the Government has the responsibility of providing the basic necessities of life to the poor, instead of frittering away the precious public money in sustaining the loss making units.

2. The comparative advantage of public sector over private sector being reduced, the Government is forced to try with the alternative models. Three important models are restructuring, disinvestment and privatisation.

3. **Restructuring assumes** continuation of Government ownership and restructuring the public sector by creating autonomous and accountable management, commercialisation of the activities, reducing political interference, infusing management talent and reducing the role of bureaucracy. The experience of India and other countries proves that, the experiment of continuing with Government ownership and restructuring is like having cake and eating it too. When government is the owner, political interference cannot be stopped; imposition of bureaucracy cannot be avoided and political reasoning overtakes economic reasoning. It is a vicious circle. The umbilical chord between government ownership and public sector be cut off over a period of time. It is impractical to suggest that, an owner need not interfere in the management of his enterprise. If the Government continues to be the owner, political or bureaucratic interference should be accepted as a norm. With all these limitations restructuring is unavoidable. Restructuring is required in undertakings which have to be retained due to various reasons. Restructuring can be a stop-gap arrangement between preparing the public sector for privatisation and the actual privatisation. It is not possible to privatise all public sector in one go. Hence this method should be fine tuned to make improvements in public sector.
4. **Disinvestment assumes** sale of non-controlling or controlling interest to create liquidity so that the government can meet its budgetary deficit and continue with the control and management of the unit. In an extreme situation the disinvestment involves a process of searching one buyer of controlling interest normally called as strategic partner. In case of large-scale units, the buyer normally is an industrial house. Selling to an industrial house leads to concentration of economic power in few hands and has opposition from workers and other stakeholders. This act may lead to reversal of privatization at a later date.

5. **Privatisation** by selling the shares to huge number of shareholders as followed by Britain is the right solution. By this method, fresh capital is infused, ownership is diluted, accountability increases, reversal of privatisation is made more difficult. To have effective privatisation, the government has to improve its performance in many fields as mentioned below.

(I) **Country And Market Conditions:**
According to the study of International Finance Corporation, India has low capacity to regulate, unfriendly country conditions and non-competitive market as far as enterprise conditions are normally considered. Hence the decision is not to sell or privatise unless country conditions and enterprise conditions are improved by privatising management arrangements and by installing appropriate regulatory authority.

(II) **Political Feasibility, Desirability And Credibility:**
The World Bank study illustrates key findings that the reforms of public sector cannot succeed until the countries fulfill each of the these conditions of political feasibility, desirability and credibility. According to World Bank, India does not meet two of the three conditions and hence not a ideal situation for
privatisation. Hence effort should be made to improve upon political feasibility and desirability before privatising.

(iii) Privatisation Maturity Profile
Business India and Cooper and Lybrand study prepared a maturity profile of various countries and ranked the countries on the privatisation maturity profile. According to the study, the ranking of the UK on a five point scale is the highest and India’s ranking is the least. India has to improve on privatisation programme, methods, political will and degree of preparedness to privatise.

(iv) Sectoral Rating
Business India and Cooper and Lybrand prepared sector wise rating of power, telecom, banking, airlines, oil and gas, on the parameters of ownership management, finance and marketing structures. The rating was low on scale of 5, the average rating was as follows.

- Power : 2.25
- Telecom : 2.50
- Banking : 3.00
- Airlines : 3.25
- Oil and gas : 3.50

Power being one of the important candidate for privatisation, Government has to improve the rating on account of ownership management and finance before privatising i.e., create responsive management structure and allow access to market finance instead of budgetary support. All other sectors mentioned above are ideal candidate for privatisation.
Indian Capital Markets:
The Indian capital markets are thin and are mainly dominated by banks, financial institutions and insurance companies which are interested in Government securities and cannot provide funds for equity absorption. The other major constituent of capital market is small individual investors whose pockets are not deep and risk-bearing capacity is limited. Hence the government has to deepen and widen the capital markets by attracting investors and by inviting foreign capital.

Stock Exchange Operations:
Stock exchange operations are weak and deficient. Stock exchange Authorities have not discharged their duties without fear or favour. Stock exchange operations should become transparent.

Private Sector Management Culture and Ethos
Industrial houses dominate the large industries in private sector. Professional management as is found in developed countries is not developed in India. Private sector management need to be professionalised, develop social responsibility and should become a responsible corporate citizen. There should be focus on quality of corporate governance. Privatisation of public sector should simultaneously proceed with professionalisation of private sector.

Macro Economic Conditions:
The comparison of macro economic conditions of India with that of developed countries at the time of privatisation shows that, their economy was strong enough to absorb any fallout like unemployment, markets were resourceful with funds for privatisation, markets were competitive, professional management was in vogue, regulatory authorities discharged their duties. Quality of the human resources in terms of health and literacy was high. Hence privatisation meant
one more step towards improvement in already improved standard of living. But in India employees believe that their existing standard of living is threatened or lost. Employees are not provided alternative opportunities and they are not informed and taken in to confidence.

7. Lessons to be learnt from experiments and experience of other countries.

India has lessons to learn from the countries that tried different methods for privatisation. For restructuring, Newzealand model is ideal; for stock exchange listing after restructuring, Italian model is worth emulating. For closure or sales of sick units the German model of 'Treuhand' is a right suggestion. For winning the confidence of the employees, the Japanese model of 'Settlement Corporation’ is worth following. These models being tried and tested, India should consider these models seriously and should go for combination of these models.

SUGGESTIONS OF THE STUDY

The study, on the basis of findings and conclusions arrived at makes the following suggestions:

1) The government should move towards privatisation in a phased manner by sequencing the process of privatisation.
2) The objective of privatisation must be improvement in the efficiency of the privatized undertaking and increase in the competition.
3) The objective should never be that of bridging the gap in the budget by using the sale proceeds of public sector undertakings.
4) The Government should make efforts to change the attitude, management culture, work culture and internal environment of the public sector...
undertaking before the privatization process is initiated. The relationship between ownership and performance has proved that, just change in ownership will not lead to improvement in performance.

5) The Government should have total commitment to the privatization. Any half-hearted, non-committal approaches will discredit the process of privatization and in future it may lead to reversal of privatization. The Government has to have statement of objectives of privatization, appropriate methodologies and time frame to complete the process of privatization.

6) The Government has to prove that, Privatisation is politically desirable and feasible. Government has to prove its political credibility by creating confidence in the stake holders affected by privatization.

7) Privatisation not being a panacea, privatization itself will not absolve the Government of its responsibility towards privatized undertaking or its stake holders.

8) The Government has to initiate economic liberalization measures like deregulation, finance sector reform, simplification of Labour Laws, import liberalization, export promotion, removal of price control and subsidization, liberalization of foreign direct investment, reforms of corporate laws, implementation of intellectual property rights along with privatization process.

9) Improvement in stock exchange operation in terms of efficiency and transparency followed by deepening and widening of capital markets will assure increase in the confidence of shareholders.

Restrictions on Foreign Direct Investment should be liberalised. Foreign Investors bring in capital, managerial skills and their vast experience.

10) Privatisation by selling the block of government shares to an industrial house will not serve the rational objective of privatization. Privatisation should aim at increasing the number of small shareholders and thereby change in the management. Transfer of shares to an industrial house or
small group of private sector shareholders will lead to economic concentration, monopoly and exploitation of customers. The theory of "dominance per se is not bad but dominance is bad" is good in theory but bad in practice. This is clearly evident from the past experience around the globe.

11. Privatised monopoly is more harmful than public monopoly. Privatisation of natural monopolies like gas, telephone, water, rail, coal and health has proved this in Britain. Privatisation of British gas and telephone without creating competition lead to exploitation of customers.

12. On the lines of British experience, the government should think of holding 'GOLDEN SHARE' in the privatized PSU. This concept has significant impact in creating confidence in the stakeholders and protecting national interest.

13. Government should make serious effort to increase the number of small shareholders by selling shares at discount, in installment and by giving concession in the services provided by privatized public sector. The investment in these shares be made eligible for tax rebates. Voucher system followed by Czechoslovakia can also be considered. The employees of public sector undertakings can be given one month’s salary as 'vouchers' to be invested in its shares.

14. Regulators have important role in controlling the profiteering, mismanagement and customer exploitation. This fact has been very clearly proved in Britain. Hence the Government has a great responsibility to appoint upright personalities as regulators and to give them all the freedom to implement the regulatory measures.

15. Performance of private sector in India has proved its managerial incapability. Privatisation of public sector amounts to transfer of ownership from Government to private sector. Under these circumstances,
Professionalisation of private sector calls for immediate attention of the Government. Privatisation of public sector and professionalisation of private sector go hand-in-hand. The corporate laws should incorporate provisions to increase professionalisation at various managerial levels and reduce family control over the management of the company. SEBI and Registrar of Companies should act. These bodies should be given ample powers to punish the guilty. The Government should incorporate such provisions on the lines of the UK and USA.

16. ABC Analysis – An approach to privatization:
Privatisation can be done effectively on the line of ABC Analysis. According to ABC Analysis, there are few entities with high investment and more entities with less investment. Hence the entities with more investment should be privatized first. This avoids the confusion created in privatization as to which sector should be privatized first. Central Government has 48% of its investment in 10 entities mainly power sector. If power sector is privatized, the government is relieved of major investment. Power sector is considered to be an ideal candidate for privatization throughout the World.
Power Sector, Telecom, service sectors like banking and Insurance, hotel, airlines are ideal candidates for privatization. Government should not concentrate on selling the easiest ones to fill up the budgetary deficit. Overall policy of privatization should be clearly spelt out.

17. The government should try various established methods followed by other countries or a combination of those methods to suit the Indian situation. Government can corporatise the public sector on the lines of Newzealand by enacting SOE Act as first step. Secondly, these corporatised entities can be listed on stock exchanges on the lines of Italy so that share prices are decided by the market forces. Institutional investors, private sector, foreign investors and small investors can take active role in investment.
Depending on the percentage of shares held or sold, the company remains in public or private sector.

To gain the confidence of the retrenched employees, a corporation called settlement corporation on the lines of Japanese model can be implemented.

To dispose of the assets of sick PSUs efficiently and effectively, German model of 'Treuhand' is worth considering.

18. The sale proceeds of privatization should be used for long term objectives where there is a need for the government investment. Few of the suggestions can be as follows.

a) Retirement of foreign debt:
   Which reduces the debt and thereby increase the credibility of privatization and also reduces the debt servicing burden.

b) Creation of fund for the benefit of displaced employees:
   This fund can be used for training, retraining the retrenched employees so that they can be absorbed in public or private sector. This fund also can be used for compensating these employees under Voluntary Retirement Scheme.

c) Providing basic education, health care, alleviation of poverty, reduction of unemployment and social security for the poor.

d) Providing drinking water, roads and lights to villages, electricity for irrigation and basic infrastructure for rural sector.

e) Providing funds for PSUs to be restructured.

19) The graphic model of these suggestions is given in the form of a flow chart called "Macro Micro Matrix --- An Indian Model of Privatisation"

In this model, two levels of decision making is suggested. One at macro level and another at micro level. At Macro level policy decisions are taken and at micro level execution of these policies is undertaken.
MACRO MICRO MATRIX

An Indian Model of Privatisation

MACRO LEVEL
1. Statement of objectives of privatisation/disinvestment
2. Time frame for disinvestment
3. Methodologies for disinvestment
4. Improve political desirability, political feasibility and political credibility
5. Policy formulation on:
   a) Undertakings to be restructured/disinvested/closed/sold
   b) VRS Policies
   c) Debt Assumption
   d) Use of sale proceeds of disinvestment
   e) Foreign Direct investment in PSUs to be disinvested
   f) Holding golden share in privatised PSU
   g) Structural changes in the economy, economic liberalisation, deregulation, financial sector reforms, simplification of corporate laws, removal of price control and subsidisation.
   h) Creation of Regulatory authorities with sufficient powers.
   i) Create transparency in stock exchange and strengthen capital market.

MICRO LEVEL
1) Undertakings for restructuring: Improve in performance and prepare them for competition with private sector and/or prepare them for privatisation. Get these undertakings corporatised on Newzealand Model and listed.
2) Undertaking for disinvestment: Decide specific time frame; call for global tenders; keep the process transparent; plan to invite, involve small shareholders/employees in big way; try various Methodologies including outsourcing and franchising.
3) Undertaking for closure/sale: protect employees interest by providing alternate jobs or offering VRS, create settlement corporation on Japanese model. For selling the undertaking follow Treuhand model of Germany