CHAPTER TWO
CHAPTER TWO
PUBLIC ENTERPRISES IN INDIA

2.1 Introduction:

The phenomenal growth of the public sector has been the distinctive characteristics of the Indian economy. Prior to 1947, there were stray instances of the public sector enterprises in Indian economy. Soon after the attainment of independence the Government of India has introduced several institutional reforms with the object of deploying the human and natural resources of the nation for the creation of a socialistic pattern of the society. The industrial policies, directive principles of state policy and the planning commission (1950) have laid down strong foundation for the planned development of mixed economy in India. The public sector is now being introduced increasingly in India in order to achieve the broad objectives of our economic policy such as self reliance, equitable distribution of wealth and income, eradication of poverty and balanced regional growth. The Government of India was compelled to introduce public enterprises in order to improve the poor state of economy at the time of independence.

The dominant reason for putting up investments in the public sector has been summed up in these words – "to give control of the commanding heights of the economy". This phrase actually is taken from a speech of Aneurin Beven, the British socialist leader. But this quite frankly represents the maximum approach to the problem of economic development in any country.

To M.Visvesvaraya, an eminent engineer, statesman and former Dewan of Mysore, goes the credit for the initial conceptualisation of planned development and the creation of a public sector. According to him, "A planned economy is required to ensure the rapid advance of industry, agriculture, commerce, finance and particularly for increasing production and earning power, reducing unemployment and encouraging greater self-sufficiency and closer interdependence between various parts of India."
In 1931, it was resolved at the Karachi session of the Congress that “the state shall own or control key industries and services, mineral resources, waterways, shipping and other means of public transport.”

Pandit Jawaharlal Nehru, the first Prime Minister of India, has recorded in his biography that the 1931 session was momentous because for the first time, “it took a step, a very short step, in a socialist direction by advocating nationalisation of service and key industries.”

From the social point of view, Glentworth says that “there is a social dimension to the motives for creating public enterprises in developing countries.”

Pandit Jawaharlal Nehru, gave three reasons for the growth of public enterprises in our economy.

(i) to acquire increasing control of the commanding heights of the economy.
(ii) to promote social gains or strategic value rather than merely aiming at economic performance of profitability and
(iii) to secure commercial surpluses with which further capital formation can take place.

Halchopen says, “only public enterprises have the risk taking capacity to take on less profitable projects because of the long gestation period and those employing less advanced technology for social reasons (increasing employment).”

The twin primary objectives of public enterprises are the augmentation of production and mobilisation of resources for further economic development.

“There are reasons to believe that the public sector has been and could be in the years to come highly instrumental in contributing to the economic welfare of the country with social and distributive justice.”

Some of the reasons for Government entering into production activities can be cited as the infrastructure development of the projects which were undertaken
immediately after Independence involving heavy investments and the private sector did not participate in a big way in this development. Thus, the onus fell on the public sector. Secondly, the geographical distribution of different projects was to be made in such a way that the backward areas could also be taken together for this purpose. Again, the private sector was unwilling to come forward and hence the responsibility was placed on the public sector.

V. Vithal Babu observed that such involvement was essential in order to ensure a "correction of distortions in the business system necessitating a climate of creative and responsive marketing". He was of the opinion that the entry of state would minimise if not eliminate altogether "the manipulations of demand and supply, unhealthy and predatory competition, excessive costing, discriminating and deceptive pricing, high pressure selling, undue profiteering and cultural pollution through false and misleading advertisement".

Today, state intervention in the economic life of the community is regarded as a common feature of the economic system. Direct participation by the state in industry and commerce of the country is no longer an economic anathema. The state today has "emerged as an active participant, taken upon itself the role of protector, of controller, of guardian, of the citizen, and of entrepreneur".

Public enterprises have a distinct philosophy and outlook and should fully take into account in its decision making the social and wider implications which form part of the state policy.

According to Laxmi Narain, public enterprise is "not a mere replica of the private sector, a form of state capitalism to supplement private capitalism."

The socialist movements in Europe aimed at increasing state involvement in the control, ownership and management of industrial production for assuring the common man of employment, welfare and no exploitation.
The lead in the process of the state playing a role in industry and business had been taken by Great Britain and the West European countries.\(^\text{13}\)

In India, there appears to be a persistent effort through successive five year plans, to progressively enlarge the sphere of public sector activity – despite the fluctuating and doctrinaire demands of party politics.

The Indian democratic planning process demonstrated that there can be a successful combination of democratic liberties with steady economic progress.\(^\text{14}\)

After the Second World War, expansion of public enterprises has been one of the most marked trends in the economy of several countries. However factors responsible for setting up of a public enterprise in the economies of developed and under-developed countries differ from one country to the other depending basically on its economic system.

It is needless to say that in Russia and other communist states, private entrepreneurship is practically non-existent. Even in the United States, there exists public corporations for example, The Tennessy Valley Authority.

On 21\(^\text{st}\) December, 1954, the Lok Sabha after a debate on economic situation resolved among others, that “the objective of our economic policy should be a socialist pattern of society”\(^\text{16}\).

The nucleus of reasons which led to give emphasis on establishment and development of public sector in India is that:

(i) Private sector entrepreneurs are incapable or unwilling to invest in socially desirable industrial or in risky undertakings. Therefore, the public undertakings came into existence because of economic necessity rather than ideological considerations.

(ii) Another reason for the growth of public sector undertakings is to check exploitation of consumers by charging exorbitant prices and to reduce concentration of wealth in the hands of few persons.
(iii) The third reason which is responsible for the growth of public sector is of recent origin; i.e., industrial sickness.

The public sector thus, becomes an essential feature and dynamic instrument for achieving socialism, the socialistic pattern of society that has been accepted as a national goal for providing equal justice to all.

2.2 Role of public sector in India:

Public sector has been a part of socio-economic and political philosophy of the Indian nation. Right from the inception of the first Five Year Plan, the policy makers have given top priority to the growth and development of the public sector.

Table 2.1 shows the plan outlays on the public sector during different plan periods and Table 2.2 shows the investment outlays in successive five year plans in both the public sector and private sector as follows:

**Table 2.1**

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Five Year Plans</th>
<th>Plan outlays (Rs. in Crore)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>First Five Year Plan Period (From 1951-52 to 1955-56)</td>
<td>1960.00</td>
</tr>
<tr>
<td>2.</td>
<td>Second Five Year Plan Period (From 1956-57 to 1960-61)</td>
<td>4672.00</td>
</tr>
<tr>
<td>3.</td>
<td>Third Five Year Plan Period (From 1961-62 to 1965-66)</td>
<td>8576.50</td>
</tr>
<tr>
<td>5.</td>
<td>Fourth Five Year Plan Period (From 1969-70 to 1973-74)</td>
<td>15778.00</td>
</tr>
<tr>
<td>6.</td>
<td>Fifth Five Year Plan Period (From 1974-75 to 1978-79)</td>
<td>39426.00</td>
</tr>
<tr>
<td>7.</td>
<td>Sixth Five Year Plan Period (From 1980-81 to 1984-85)</td>
<td>97500.00</td>
</tr>
<tr>
<td>8.</td>
<td>Seventh Five Year Plan Period (From 1985-86 to 1989-90)</td>
<td>180000.00</td>
</tr>
<tr>
<td>9.</td>
<td>Annual Plan (1990-92)</td>
<td>138440.00</td>
</tr>
<tr>
<td>10.</td>
<td>Eighth Five Year Plan Period (From 1992-93 to 1996-97)</td>
<td>361000.00</td>
</tr>
<tr>
<td>11.</td>
<td>Ninth Five Year Plan Period (From 1997-98 to 2001-02)</td>
<td>760000.00</td>
</tr>
</tbody>
</table>

Source – C.S.O. Basic Statistic relating to the Indian Economy
And Ninth Five Year Plan
Table 2.2
Investment outlays in successive five year plans
in both the public and private sector
Rs. in Crore

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Five Year Plans</th>
<th>Public Sector Amount (%)</th>
<th>Private Sector Amount (%)</th>
<th>Total Amount (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>First Five Year Plan</td>
<td>1960 (52.1)</td>
<td>1800 (47.9)</td>
<td>3760 (100)</td>
</tr>
<tr>
<td>2.</td>
<td>Second Five Year Plan</td>
<td>4672 (60.1)</td>
<td>3100 (39.9)</td>
<td>7772 (100)</td>
</tr>
<tr>
<td>3.</td>
<td>Third Five Year Plan</td>
<td>8577 (67.7)</td>
<td>4100 (32.3)</td>
<td>12677 (100)</td>
</tr>
<tr>
<td>4.</td>
<td>Fourth Five Year Plan</td>
<td>15779 (63.7)</td>
<td>8980 (36.3)</td>
<td>24759 (100)</td>
</tr>
<tr>
<td>5.</td>
<td>Fifth Five Year Plan</td>
<td>39426 (59.3)</td>
<td>27048 (40.7)</td>
<td>66474 (100)</td>
</tr>
<tr>
<td>6.</td>
<td>Sixth Five Year Plan</td>
<td>97500 (56.6)</td>
<td>74710 (43.4)</td>
<td>172210 (100)</td>
</tr>
<tr>
<td>7.</td>
<td>Seventh Five Year Plan</td>
<td>180000 (51.7)</td>
<td>168148 (48.3)</td>
<td>348148 (100)</td>
</tr>
<tr>
<td>8.</td>
<td>Annual Plans</td>
<td>138440 (100.00)</td>
<td>--</td>
<td>138440 (100)</td>
</tr>
<tr>
<td>9.</td>
<td>Eight Five Year Plan</td>
<td>361000 (45.5)</td>
<td>437000 (54.8)</td>
<td>798000 (100)</td>
</tr>
<tr>
<td>10.</td>
<td>Ninth Five Year Plan</td>
<td>760000 (34.7)</td>
<td>1430000 (65.3)</td>
<td>2190000 (100)</td>
</tr>
</tbody>
</table>

(Source: C.S.O., Basic Statistics relating to the Indian Economy and Ninth Five Year Plan)

Table 2.1 shows that the plan outlays on the public sector increased from Rs. 1960 Crore in the First Five Year Plan (1955-56) to Rs. 7,60,000 Crore in the Ninth Five Year Plan (1997-98 to 2001-02). It depicts the policymakers top priority for the growth and development of public sector in the Indian economy.

Similarly, it could be observed from Table 2.2 that the plan outlays on the public sector upto Seventh Five Year Plan have been much higher than the plan outlays on the private sector. The average plan outlays on the public sector constitutes more than half of the total planned outlays during the First to Seventh Five Year Plan period. The relatively rapid rates of expansion and the consequent increase in the Indian economy are reflected in the steadily rising share of this sector. Of course, the

The reasons leading to the tremendous growth of the public sector and its dominating role in the Indian economy could be traced to the economic and industrial policy pronouncements by the Government from time to time. The Industrial Policy Resolution of 1948 assigned a greater role to the state in the economic development of the country through increasing production and ensuring equitable distribution thereof. It suggested that “state must play a progressively active role in the development of industries”\(^\text{17}\).

The First Five Year Plan explicitly favoured the setting up and expansion of the public sector. It stated “the scope and need for development are so great that it is best for the public sector to develop those industries in which private sector is unable or unwilling to put up the resources required and run the risks involved leaving the rest of field for private enterprises”\(^\text{18}\).

The Government of India revised its earlier Industrial Policy and announced a new industrial policy in 1956. The Industrial Policy Resolution of 1956 declared as the national objective as well as the need for setting up all industries in the nature of basic and strategic importance in the public sector in order to quicken the planned and rapid development of the economy. It further added, “other industries which are essential and require investment on a large scale, which only the state in the present circumstances could provide have also to be in the public sector”\(^\text{19}\).

Accordingly the Second Five Year Plan assigned top priority to the development of basic and heavy industries in the public sector. There was an elaboration of the lines of advance envisaged for the public sector in accordance with the “Socialist Pattern of Society” as the guiding political philosophy. It also emphasised the importance of establishing public sector as an investment for checking concentration of economic power.\(^\text{20}\)
In the Third Five Year Plan from 1961-62 to 1965-66, in addition to the emphasis on self-sufficiency in food and increase of agricultural production, greater importance was assigned to the expansion of basic industries such as Iron and Steel, Industrial Machinery, Machine Tools, fertilisers, basic chemicals, power, essential drugs and petroleum refining in the public sector.\textsuperscript{21}

The Fourth Five Year Plan (1969-74) stressed the need for further expansion of the public sector to fill the gaps in the industrial sector and investments in certain other industries in which the development of private sector had fallen short of requirements of the economy.\textsuperscript{22}

The Fifth Five Year Plan (1974-79) with its principal focus on the removal of poverty and attainment of self-reliance\textsuperscript{23} called for strengthening the share of public sector in the core industries.\textsuperscript{24}

The Sixth Five Year Plan (1980-85) categorically stated the role of the public sector will need to help for creating a socialist society.\textsuperscript{25}

The Seventh Five Year Plan (1985-90) stated to improve productivity and growth with social justice. It consolidates the gains of past investment spread over three and a half decades of Indian planning and to take the country on the path of further development leading to equality and a tangible rise in social consumption and welfare. The Seventh Five Year Plan aimed at in removing poverty and promoting self-reliance through export promotion and import substitution.\textsuperscript{26}

The clear cut priorities of the Eighth Five Year Plan’s (1992-97) were to expand employment, squeeze inflation and reduce the deficit in the country’s account. Hence, “the Eighth Plan emphasized on employment as its central objective, different from the earlier plans which had consolidated employment as a by-product of growth.”\textsuperscript{27}

The Ninth Five Year Plan (1997-2002) has been to evolve a shared vision of and a shared commitment to the national objectives and the development strategy not
The first industrial policy, promulgated in 1948, laid down four fold divisions of industries. The first category included industries which were solely reserved for public sector (strategic importance). The second category was industries which had to be progressively nationalised though they were marked with the presence of both public and private sectors. The third category constituted industries where private sector dominated but the entry of public sector was not ruled out. The fourth category of industries was solely left to private sector. In this way, the Industrial Policy Resolution of 1948, assigned a greater role to the state in the economic development of the country through increasing production and ensuring equitable distribution thereof. It suggested that the “state must play a progressively active role in the development of industries”.

The Industrial Policy Resolution of 1956, besides emphasising and widening the scope of state participation in industrial development also stressed the need to run public sector units as commercially viable units. It revised its earlier industrial policy and declared as the national objective, as well as the need for setting up all industries in the nature of basic and strategic importance in the public sector in order to quicken the planned and rapid development of the economy. It further added, “other industries which are essential and require investment on a large scale, which only the state in present circumstances could provide, have also to be in the public sector.”

Realising the weaknesses of the centrally planned, controlled and protected Indian economy in accomplishing the enshrined objectives, the Government of India announced New Economic Policy as well as New Industrial Policy in July 1991 to get rid of gradually accumulated and touching the near bankruptcy height of the financial...
crisis, in order to put forth the Indian Economy on the right track, besides, making it more vibrant and dynamic.31

The Third Industrial Policy Statement was announced on 24th July 1991. It is a total reversal of the existing public enterprise policy. The areas reserved for public enterprises were reduced to 8 from 29. It admitted that many public enterprises “have become burden rather than an asset to the Government” and therefore, the Government was adopting “a new approach to Public Enterprises”. Six dimensions of the new approach are: (i) public enterprises to focus on strategic, high-tech and essential infrastructure, (ii) chronically sick public enterprises to be referred to the Board of Industrial and Financial Reconstruction (BIFR), which will suggest remedies for their rehabilitation or recommend closure, (iii) a part of public enterprises equity to be offered to mutual funds, financial institutions, general public and employees, (iv) public enterprise boards to be made more professional and given greater power, (v) performance improvement to be secured through the Memorandum of Understanding (MOU) and (vi) the Government would ensure that public enterprises are “run on business lines as envisaged in the Industrial Policy Resolution of 1956”32.

However, public enterprises are playing an important role in shaping the basic structure of economy. The share occupied by the public sector in net domestic product (NDP) at current prices has increased from 7.5% in 1950-51 to 24% in 2001-02.33

It is also playing an important role in generating employment in the country. Public sector employment in 1971 was about 11 million persons. But in 2002, their number rose to 19.2 million showing about 75% increase during this period.34

It is also contributing significantly to Gross Domestic Capital Formation of the country. The share in Gross Capital Formation has increased from 3.5% during the First Five Year Plan to 24.0% during the Ninth Five Year Plan.35

Again, public enterprises are contributing a considerable amount to the Central exchequer in the form of dividend, excise duty, corporate taxes etc. This contribution has increased from Rs. 7,610 Crore in 1980-81 to Rs. 22,087 Crore in 1992-93.
Further, it has been increased to Rs. 61037 Crore in 2000-01 and 62753 Crore in 2001-02.36

Similarly, the foreign exchange earning of the public sector has been gradually increased from Rs. 35 Crore in 1965-66 to Rs.170 Crore in 1969-70 and then to Rs. 10,345 Crore in 1992-93. Again, it has been increased to Rs.18,828 Crore in 1998-99 and Rs. 19,714 Crore in 1999-2000 and Rs. 20,886 Crore in 2001-02.37

So, it can be concluded that the public enterprises play a very important role in shaping the country’s economic development.

When a comparison of public sector enterprises incorporated under the Indian Companies Act is made with the private sector companies the importance of public sector enterprises becomes more evident.38 It is because of national goals, like removal of poverty, attainment of self-reliance, expansion of employment opportunities, removal of regional imbalances, increasing of foreign exchange reserves etc.

2.3 Concept and Objectives:

In India, public enterprises operate mostly at two levels of administration, centre and state. The central public enterprises are owned, managed and controlled by the Central Government. The State level public enterprises (SLEPs) are owned and managed by the respective state governments. The Central Public Enterprises are mainly engaged in the production of goods, such as steel, minerals and metals, coal, lignite, power, petroleum, fertilisers, chemicals, pharmaceuticals, equipment, consumer goods, agro-based industries, textiles etc.

Defining the role of public sector, the constitution of India, adopted on 26th January 1950, directs the state as per Article 39 (b) and (c) to ensure that the ownership and distribution of material resources serve the common good and there is no concentration of wealth and means of production. In recent years, the state had also to shoulder the responsibility of rehabilitating a number of ‘sick’ units to protect the
interests of the workers and also to ensure continued production. The public sector has assumed a significant role in the attainment of various socio-economic objectives, such as:

(a) to help in the rapid economic growth and industrialisation of the country and create the necessary infrastructure for economic developments;
(b) to earn return on investment and thus, generate resources for development;
(c) to promote re-distribution of income and wealth;
(d) to create employment opportunities;
(e) to promote balanced regional development;
(f) to assist the development of small scale and ancillary industries;
(g) to promote import substitutions, save and earn foreign exchange for economy;
(h) to provide a counter-veiling force to the growth of big business houses;
(i) to exercise control over industries of basic and strategic importance and promote their development.

2.4 Growth of Public Enterprises:

Right from the inception of the First Five Year Plan in 1951, the policy makers have accorded top priority to growth and development of the public sector.

Table 2.3 shows the growth of investments in Central Government Enterprises as follows.:
Table 2.3
Growth of Investment in Central Government Enterprises

<table>
<thead>
<tr>
<th>Particulars</th>
<th>No. of units</th>
<th>Total investments (Rs. In Crore)</th>
</tr>
</thead>
<tbody>
<tr>
<td>At the commencement of 1st five year plan</td>
<td>5</td>
<td>29</td>
</tr>
<tr>
<td>(01.04.1951)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>At the commencement of 2nd five year plan</td>
<td>21</td>
<td>81</td>
</tr>
<tr>
<td>(01.04.1956)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>At the commencement of 3rd five year plan</td>
<td>47</td>
<td>948</td>
</tr>
<tr>
<td>(01.04.1961)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>At the commencement of 4th five year plan</td>
<td>73</td>
<td>2410</td>
</tr>
<tr>
<td>(01.04.1966)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>At the commencement of 5th five year plan</td>
<td>84</td>
<td>3897</td>
</tr>
<tr>
<td>(01.04.1969)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>At the commencement of 6th five year plan</td>
<td>122</td>
<td>6237</td>
</tr>
<tr>
<td>(01.04.1974)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>At the end of 5th five year plan</td>
<td>169</td>
<td>1553</td>
</tr>
<tr>
<td>(31.03.1979)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>At the commencement of 6th five year plan</td>
<td>179</td>
<td>18150</td>
</tr>
<tr>
<td>(01.04.1980)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>At the commencement of 7th five year plan</td>
<td>215</td>
<td>42673</td>
</tr>
<tr>
<td>(01.04.1985)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>At the end of 7th five year plan</td>
<td>244</td>
<td>99329</td>
</tr>
<tr>
<td>(31.03.1990)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>At the commencement of 8th five year plan</td>
<td>246</td>
<td>13545</td>
</tr>
<tr>
<td>(01.04.1992)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>At the end of 8th five year plan</td>
<td>242</td>
<td>213610</td>
</tr>
<tr>
<td>As on 31.03.1998</td>
<td>240</td>
<td>213024</td>
</tr>
<tr>
<td>As on 31.03.1999</td>
<td>240</td>
<td>239167</td>
</tr>
<tr>
<td>As on 31.03.2000</td>
<td>240</td>
<td>252554</td>
</tr>
<tr>
<td>As on 31.12.2001</td>
<td>240</td>
<td>274198</td>
</tr>
<tr>
<td>As on 31.03.2002</td>
<td>240</td>
<td>324632</td>
</tr>
</tbody>
</table>


Table 2.3 shows that the total investments with number of units in public sector enterprises as on 1st April during the periods starting from 1951 to 2002, the investment in Central Public Enterprises has grown appreciably over the years from a figure of Rs. 29 Crore as on 1st April, 1951 in 5 enterprises, the investment increased to Rs. 3,24,632 Crore in 240 enterprises on 1st April, 2002. It depicts the remarkable progress in public sector units as well as investment during different years. It clearly reveals the importance assigned to the public sector enterprises in different plan periods.
The number of units reduced from 246 units at commencement of 8th Five Year Plan to the end of 9th Five Year Plan to 240 units because of the disinvestment policy of the Government. Of course, the investments increased from Rs. 2,13,610 Crore to Rs. 3,24,632 Crore in the said period.

2.5 Forms of Public Enterprises:

There are mainly three types of public undertakings in India. These are:

(a) Departmental undertakings;
(b) Public or Statutory Corporations;
(c) Government companies.

(a) Departmental undertakings:
Under the departmental undertakings, a public enterprise is run as a department of the Government. This type of enterprises is financed through annual budget appropriations made by legislations and its revenues are paid into the treasury. These types of enterprises are subject to budget accounting and auditing controls as applicable to all Government departments and its workings are debatable in the parliament.

The basic weakness of departmental management is that such enterprises cannot run like business organisations. Frequent changes in Government policy will hamper the working of these units and it becomes difficult to formulate long range policy. These units are also known for red tapism and procrastinations and cannot be sensitive to consumer demands. Again, the internally generated funds of these departments are merged into the general revenue of the Government and are not generally available for expansion purposes.

(b) Public or Statutory Corporations:
A public or statutory corporation is created by an act passed by either parliament or state legislative assemblies which defines its power functions, privileges and prescribes the pattern of management. There are three distinct features of such a corporation. First, it is an autonomous body corporate and administered by a Board of
Directors in which various interests are represented. The Board formulates the policies which are executed by the Chairman from time to time. Its staffs are appointed by the corporation itself.

Secondly, as it is to a large extent free from parliamentary control, it can operate like a business concern.

Thirdly, it is financially self supporting and hence, it can use its own earnings for its day to day operations and expansion. However, because the Government has to provide capital to those corporations, parliamentary control over them is necessary to certain extent.

The public corporation is wholly owned by the Government. Private source or agencies may provide a part or even the whole of the capital required by it, but they are not its shareholders. Profits earned by the public corporation can be treated as profit of the Corporation, as the manner in which profits are to be utilised is also stipulated in the Act. The Government have the right to appropriate the whole profit as well as to meet the whole loss. The corporation is however, not subject to tight financial control as in the case of departmental form by the parliament. It is left free to make its own budget and alter it as necessary to keep its earnings, profits and savings to itself and to borrow money as required. It is also subject to taxation.

(e) Government companies:

The company form of organisation is patterned on the model of its counterpart in the private sector. The outward characteristics of private sector companies including the term 'limited' is retained. It functions according to its articles of association and is registered under the companies law. It has a separate legal entity and is liable to taxation. Its finances do not form part of general budget. Its accounts may either be audited by the auditors appointed by itself or by Comptroller General or both.

However according to Administrative Reforms Commission, the company form is more appropriate for undertakings which have an element of private
participation. It is also desirable for those undertakings which have been set up to improve or stabilise a particular area of business as the case of construction undertakings, the trading corporations and hotels.

Company firm was advantageous as it allowed the flexibility and autonomy for the successful operation of commercial enterprises and also provided for parliamentary control over the companies under the special provisions of the companies act.44

A Government company may be registered as a joint stock company under the Companies Act, 1956. A Government company is one in which not less than 51 percent of the share capital is held by the Government. The company form of public enterprises provides more operational and financial flexibilities in comparison with other public enterprises.

2.6 Financial Performance:

In respect of profitability, the public sector enterprises are showing a dismal picture. Although, some public enterprises are showing a good amount of profit but a good number of other public enterprises are incurring a huge loss leading to a fall in the amount of overall net profit earned by the public sector enterprises in general as shown in Table 2.4

<table>
<thead>
<tr>
<th>Year</th>
<th>Profit making enterprises Amount (No.)</th>
<th>Loss making enterprises Amount (No.)</th>
<th>No profit/ No Loss (No.)</th>
<th>Total Net Profits Amount (No.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990-91</td>
<td>5394 (123)</td>
<td>(-) 3122 (111)</td>
<td>2</td>
<td>2272 (236)</td>
</tr>
<tr>
<td>1991-92</td>
<td>6079 (134)</td>
<td>(-) 3723 (102)</td>
<td>2</td>
<td>2356 (237)</td>
</tr>
<tr>
<td>1992-93</td>
<td>7384 (131)</td>
<td>(-) 4113 (106)</td>
<td>2</td>
<td>3271 (237)</td>
</tr>
<tr>
<td>1993-94</td>
<td>9722 (120)</td>
<td>(-) 5287 (117)</td>
<td>3</td>
<td>4435 (240)</td>
</tr>
<tr>
<td>1994-95</td>
<td>12070 (130)</td>
<td>(-) 4883 (117)</td>
<td>2</td>
<td>7187 (241)</td>
</tr>
<tr>
<td>1995-96</td>
<td>14704 (134)</td>
<td>(-) 4826 (101)</td>
<td>4</td>
<td>9578 (239)</td>
</tr>
<tr>
<td>1996-97</td>
<td>16125 (129)</td>
<td>(-) 5939 (104)</td>
<td>3</td>
<td>10186 (236)</td>
</tr>
<tr>
<td>1997-98</td>
<td>20279 (127)</td>
<td>(-) 6559 (100)</td>
<td>8</td>
<td>13720 (235)</td>
</tr>
<tr>
<td>1998-99</td>
<td>22509 (127)</td>
<td>(-) 9274 (106)</td>
<td>2</td>
<td>13235 (235)</td>
</tr>
<tr>
<td>1999-2000</td>
<td>24615 (125)</td>
<td>(-) 10060 (106)</td>
<td>1</td>
<td>14555 (232)</td>
</tr>
<tr>
<td>2000-2001</td>
<td>28492 (122)</td>
<td>(-) 12839 (111)</td>
<td>2</td>
<td>15653 (234)</td>
</tr>
<tr>
<td>2001-2002</td>
<td>36432 (119)</td>
<td>(-) 10387 (109)</td>
<td>2</td>
<td>26045 (230)</td>
</tr>
</tbody>
</table>

As per the Table No. 2.4, the profit making enterprises increased their net profits from Rs. 5394 Crore in 1990-91 to Rs. 36462 Crore in 2001-02. But, the number of profit making enterprises decreased from 123 units in 1990-91 to 119 units 2001-02. The number of profit making units were maximum 134 units in 1995-96. Thereafter it started decreasing. The loss making units were increasing their net losses from Rs. 3122 Crore in 1990-91 to Rs. 10387 Crore in 2001-02. The loss making units were maximum 117 units in 1993-94 decreased to 109 units in 2001-02. The number of no profit / no loss units were maximum 8 units in 1997-98 reduced to 2 units in 2001-02. The public enterprises as a whole earned net profits of Rs. 2272 Crore in 1990-91. But with the increase of the volume of net profits earned by profit making enterprises the net profits increased to Rs. 26045 Crore in 2001-02. Still then the Government should take necessary steps to reduce the losses of loss making units as these units are reducing the net profits of the profit making units.

### Table 2.5

Rate of Return of Central Public Sector Enterprises (Rs. in Crore)

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of units</th>
<th>Capital employed (Rs. in Crore)</th>
<th>Net profit after tax (Rs. in Crore)</th>
<th>Rate of return (Net profit after tax to capital employed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990-91</td>
<td>236</td>
<td>102083</td>
<td>2272</td>
<td>(+) 2.23</td>
</tr>
<tr>
<td>1991-92</td>
<td>237</td>
<td>117991</td>
<td>2356</td>
<td>(+) 2.00</td>
</tr>
<tr>
<td>1992-93</td>
<td>239</td>
<td>140110</td>
<td>3271</td>
<td>(+) 2.33</td>
</tr>
<tr>
<td>1993-94</td>
<td>240</td>
<td>159836</td>
<td>4435</td>
<td>(+) 2.84</td>
</tr>
<tr>
<td>1994-95</td>
<td>241</td>
<td>162450</td>
<td>7187</td>
<td>(+) 4.47</td>
</tr>
<tr>
<td>1995-96</td>
<td>239</td>
<td>173948</td>
<td>9578</td>
<td>(+) 5.50</td>
</tr>
<tr>
<td>1996-97</td>
<td>236</td>
<td>231178</td>
<td>10186</td>
<td>(+) 4.41</td>
</tr>
<tr>
<td>1997-98</td>
<td>235</td>
<td>249855</td>
<td>13720</td>
<td>(+) 5.44</td>
</tr>
<tr>
<td>1998-99</td>
<td>235</td>
<td>265093</td>
<td>13203</td>
<td>(+) 4.98</td>
</tr>
<tr>
<td>1999-00</td>
<td>235</td>
<td>303411</td>
<td>14555</td>
<td>(+) 4.80</td>
</tr>
<tr>
<td>2000-01</td>
<td>234</td>
<td>331372</td>
<td>15653</td>
<td>(+) 4.70</td>
</tr>
<tr>
<td>2001-02</td>
<td>230</td>
<td>390032</td>
<td>26045</td>
<td>(+) 6.70</td>
</tr>
</tbody>
</table>

The foregoing Table 2.4 reveals that public enterprises as a whole earned net profits of Rs. 2272 Crore in 1990-91 increased to Rs. 26045 Crore in 2001-02 about twelve times. The capital employed increased from Rs. 102083 Crore in 1990-91 to Rs. 390032 Crore in 2001-02. The rate of return of net profits after tax to the capital employed also increased from (+) 2.23% in 1990-91 to (+) 6.70%. It is not satisfactory. The number of units also reduced from 239 units in 1995-96 to 230 units in 2001-02 due to privatisation.

Table 2.5 depicts the trend of growth of sales in central public enterprises as shown below:

Table 2.6
Growth of Turnover in Public Sector Enterprises

<table>
<thead>
<tr>
<th>Year</th>
<th>Turnover</th>
<th>Capital employed</th>
<th>Turnover to capital employed (%)</th>
<th>Growth of Turnover (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990-91</td>
<td>118680</td>
<td>102080</td>
<td>116</td>
<td>--</td>
</tr>
<tr>
<td>1991-92</td>
<td>133906</td>
<td>117991</td>
<td>114</td>
<td>13</td>
</tr>
<tr>
<td>1992-93</td>
<td>147266</td>
<td>140110</td>
<td>105</td>
<td>10</td>
</tr>
<tr>
<td>1993-94</td>
<td>158049</td>
<td>159836</td>
<td>99</td>
<td>7</td>
</tr>
<tr>
<td>1994-95</td>
<td>187335</td>
<td>162450</td>
<td>115</td>
<td>19</td>
</tr>
<tr>
<td>1995-96</td>
<td>226919</td>
<td>173948</td>
<td>130</td>
<td>21</td>
</tr>
<tr>
<td>1996-97</td>
<td>260735</td>
<td>231178</td>
<td>113</td>
<td>15</td>
</tr>
<tr>
<td>1997-98</td>
<td>276002</td>
<td>249855</td>
<td>110</td>
<td>6</td>
</tr>
<tr>
<td>1998-99</td>
<td>310179</td>
<td>265093</td>
<td>117</td>
<td>12</td>
</tr>
<tr>
<td>1999-00</td>
<td>389310</td>
<td>303411</td>
<td>128</td>
<td>26</td>
</tr>
<tr>
<td>2000-01</td>
<td>458277</td>
<td>330649</td>
<td>139</td>
<td>21</td>
</tr>
<tr>
<td>2001-02</td>
<td>478728</td>
<td>390261</td>
<td>123</td>
<td>5</td>
</tr>
</tbody>
</table>

Source: Public Enterprise Survey, 1994-95 and 2001-02,

It is seen from the table mentioned above that in 1990-91, the percentage of turnover to capital employed (CE) was 116% and this ratio increased to 139% in 2000-01. This ratio was declined to 123% in 2001-02. The growth of turnover was also declined from 26% in 1999-00 to 5% in 2001-02.
Table 2.7 explains the top ten enterprises in terms of turnover as follows:

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Name of the enterprise</th>
<th>Amount</th>
<th>% of the total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Indian Oil Corporation Limited</td>
<td>1,14,864</td>
<td>24.0</td>
</tr>
<tr>
<td>2.</td>
<td>Hindustan Petroleum Corporation Limited</td>
<td>44,434</td>
<td>9.3</td>
</tr>
<tr>
<td>3.</td>
<td>Bharat Petroleum Corporation Limited</td>
<td>39,830</td>
<td>8.3</td>
</tr>
<tr>
<td>4.</td>
<td>Food Corporation of India</td>
<td>31,556</td>
<td>6.6</td>
</tr>
<tr>
<td>5.</td>
<td>Bharat Sanchar Nigam Ltd.</td>
<td>24,300</td>
<td>5.1</td>
</tr>
<tr>
<td>6.</td>
<td>Oil and Natural Gas Corporation Ltd.</td>
<td>23,233</td>
<td>4.8</td>
</tr>
<tr>
<td>7.</td>
<td>National Thermal Power Corporation Limited</td>
<td>17,911</td>
<td>3.7</td>
</tr>
<tr>
<td>8.</td>
<td>Steel Authority of India Ltd.</td>
<td>15,684</td>
<td>3.3</td>
</tr>
<tr>
<td>9.</td>
<td>Gas Authority of India Ltd.</td>
<td>10,573</td>
<td>2.2</td>
</tr>
<tr>
<td>10.</td>
<td>IBP Company Limited</td>
<td>8,453</td>
<td>1.8</td>
</tr>
<tr>
<td></td>
<td>Sub-Total (1 to 10)</td>
<td>3,30,837</td>
<td>69.1</td>
</tr>
<tr>
<td></td>
<td>Total turnover</td>
<td>4,78,728</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: Public Enterprise Survey, 2001-2002

It is seen from the above table that in terms of gross turnover in 2001-02, Indian Oil Corporation Limited topped the list with a total turnover of Rs. 114,864 Crore followed by Hindustan Petroleum Corporation Ltd. with Rs. 44,434 Crore and Bharat Petroleum Corporation Limited with Rs. 39,830 Crore. Taking these three petroleum companies, it may be noted that they accounted for Rs. 1,99,128 Crore or 41.6 percent of the total turnover of all central public sector undertakings.

A very interesting point about the financial performance of the central public sector undertaking is that the major part of it constitutes the petroleum sector enterprises. For instance, in 2001-02 net profit after tax came to Rs. 26,045 Crore of which about Rs. 12,714 Crore (or 49 percent) came from petroleum enterprises alone. The Government therefore, makes a case-by-case study of the loss incurring enterprises and take remedial action.

From the above analysis, it can be concluded that the financial performance of the public sector enterprises is not at all satisfactory. About 50 percent of the total
profit is contributed by petroleum enterprises only by raising prices of oil. This is not a healthy sign.

In order to improve the performance of public sector enterprises of the country the concept of Memorandum of Understanding was introduced in 1988. The main objective of ‘MOU’ is to reduce the quantity of control and increase the quality of accountability. The emphasis is on achieving the negotiated and agreed objectives rather than interfering in day to day affairs. In 2001-02, out of the total public enterprises, 42 enterprises were rated excellent and 24 were very good, is good and 15 fair. The return on capital employed is only 6.7% in 2001-02.\textsuperscript{46}

The 1997-98 budget referred to nine well performing public sector enterprises – the Navaratnas (IOC, ONGC, HPCL, BPCL, IPCL, VSNL, BHEL, SAIL and NTPC) which were to be provided with full financial and managerial autonomy to become global giants. These nine high performing public sector enterprises account for nearly 75 percent of the profits of all public sector enterprises. Later on two more enterprises – GAIL and MTNL were added to the list bringing the number of Navaratnas to eleven.\textsuperscript{47}

In October 1997, the Government announced a package of financial and operational autonomy for another 97 profit making public enterprises called miniratnas. The selected enterprises – which have been split into two categories depending on their recent performance – will have enhanced powers to incur capital expenditure, enter into joint ventures, and work out their own manpower policies.\textsuperscript{48}

2.7 The Issue of Privatisation:

While privatisation is more often equated with transfer of ownership, the critical manifestation of privatisation, is the transfer of managerial control to private hands, individual or co-operatives.
In India, the meaning of privatisation that seems to have been adopted is the disinvestment of Government's equity in public sector undertakings and the opening up of already closed areas to private participation.

The efficacy of privatisation depends of efficient regulatory structure and privatisation should be made cautiously.\(^{49}\)

The time is now ripe to hive off loss making activities to curb the flow from the state exchequer.\(^{50}\)

During the eighties, due to large scale fiscal deficits that the Government faced massive fiscal imbalance and during 1990-91 serious balance of payment crisis which forced India to approach the IMF for substantial repurchase facilities and the World Bank was linked to conditionalities embracing many sectors of the economy. The new Industrial Policy of 1991 was an attempt to meet these conditionalities. The thrust of the new policy on increasing the role and importance of the private sector in the industrial economy of the country and various measures like reducing the number of industries reserved for public sector, scrapping MRTP limit, free entry of foreign investment and technology etc. were announced for this purpose.

The 1991 Industrial Policy has brought the public sector units at par with the private sector units. Now, the public sector units have also been brought within the jurisdiction of the Board for Industrial and Financial Reconstruction (BIFR). Thus, it is the BIFR that will now decide whether a sick public sector unit can be effectively restructured or whether, it has to be closed down. As on November 30, 1998, 228 cases of public sector units (82 central and 146 state) were referred to the BIFR.\(^{51}\)

The major plan of the privatisation programme in India has been disinvestment of Government equity in selected number of profit making enterprises. The main rationale behind this programme is to raise non-inflationary form of finance for the budget; all other objectives are subsidiary to this main objective. The disinvestment programme started in 1991-92, when the Government announced its new economic policy. The committee on Disinvestment of shares in PSE under the
chairmanship of C. Rangarajan submitted its report in 1993 and came out with various suggestions. Further the Government constituted a five member Public Sector Disinvestment Commission under the Chairmanship of G.V. Ramakrishnan in August 1996 for drawing a long term disinvestment programme for the PSU’s. The commission has wide ranging terms of reference with power to determine the extent of disinvestment in each PSU, the modalities of disinvestment and the order in which the process has to be undertaken. The Disinvestment Commission so far has submitted eight reports covering 43 PSUs. The total realisation to the Government from various rounds of disinvestment till 2002-03 was Rs. 29,482 Crore.

Privatisation efforts in U.K., U.S.A., France and our neighbouring countries like China, Srilanka, Pakistan and Bangladesh have influenced the policy makers in India to experiment with privatisation through liberalisation.53

Some critics are opposing privatisation of the public sector units (PSUs). Indeed, the way the Government is going about this task is questionable – huge private monopolies are being created, social objectives are being ignored and backdoor entry is being provided to multinationals. But that does not mean that privatisation is itself a wrong policy. An antibiotic drug if taken, wrongly becomes harmful. That only means that antibiotic should be taken correctly. Similarly, privatisation should be implemented correctly.

The first objection to privatisation is that profit making public sector units are being sold rather than loss making ones. The fact, however, is that most of the profit making public sector units belong to the monopoly sectors – Oil and Telecom. For example, VSNL (Videsh Sanchar Nigam Limited) has been sold out to the Tatas for Rs. 1439 Crore. It had earned a net profit of Rs. 968 Crore in 1999-2000. With these sectors being progressively opened to private players, the profit making public sector units are steadily decreasing.

A more serious objection is that disinvestment is being done in a manner that is strengthening private monopolies. Modern Foods was sold to Hindustan Lever and BALCO to Sterlite. The purchasers already had a substantial market share in their
respective sectors. Privatisation in favour of these players only replaces a state monopoly with a private monopoly. The objective of privatisation, however, is to create greater competition. Tyranny of the private monopolist is no better than tyranny of the Government.

The third objection is that privatisation amounts to the Government disowning its social responsibilities. The objective of the Government is not merely to create economic growth but to secure the welfare of the people. The two need not be conterminous. For example, the expansion of insurance and banking in the rural areas has taken place after the nationalisation of these companies. It is generally believed that public sector is credited with the social welfare function. A large number of persons working in the public sector enjoy better pay scales, better perks, more in the form of leave and retirement benefits. As against it, the private sector has the image of exploitative efficiencies.

The fourth objection to privatisation emanates from the concern for workers. Sometimes, the problems of the public sector undertakings are solely due to the interference of the politicians. The workers are not responsible. For example, the Government's decision to sell National Aluminium Company Ltd., a profit making organisation was only for political reasons.

The fifth objection is that privatisation has given a backdoor entry to the multinationals. Privatisation in favour of domestic and foreign buyers has a totally different impact on the economy.

The Government has decided to actively pursue a policy of privatisation of public sector enterprises. Surely, its purpose could not be wholly to meet IMF, World Bank conditionalities. If it is to liquidate unproductive assets, then the right approach may be to close down and liquidate such enterprises. A mere shift from one sector to another would not add to national productive capital. If the unit was inefficient when in the public sector, it may become profitable after privatisation since the new management could raise the performance standard. This cannot be a solution to the problem of inefficiency. However, if there was nothing basically wrong with the
enterprise except its management, why does not the Government make an earnest attempt to introduce competent management? Can we evolve a new system for involving groups of management professionals?54

In conclusion, it may be said that while, there is no case for the complete abolition of the public sector policy, the Government must throw its whole weight in bringing about suitable reforms to make the public sector enterprises model productive units and catalytic agents to boost the economy as a whole.55

The wave of privatisation was driven primarily by the overwhelming political objective of transforming the economy as rapidly as possible from a socialist economy to a private sector economy.

One can trace the evolution of India’s policy towards public sector reform in three distinct phases as follows:

(1) The first phase, from the mid 1980s to 1990, the phase when there was a recognition that public sector performance was inadequate and extensive reform was needed, but it was felt this could be achieved without privatization by improving public sector inefficiency.

(2) The second phase from 1991 to 1996 is the phase of “disinvestment” when the Government sought to raise revenue by selling minority holdings in central public sector enterprises but with management control remaining firmly in Government hands.

(3) The third phase, which began in 1997 can be called the phase of genuine privatization. In this phase Government explicitly recognized that it should withdraw from managing public sector enterprises and hand over management to private sector owners.

While privatisation was in full swing in the U.K., there were many examples of successful public sector enterprises in industrialized countries such as France and Italy which had not embarked on major privatisation. This was also the case in East Asia. By the mid 1980s, it had become clear that East Asia was performing much better than India, and this led to a willingness to learn from East Asian experiences.
However, privatisation was not part of that experience. The public sector was certainly less important in East Asia than in India, but it was not viewed as inherently unviable. On the contrary, East Asia appeared to have public sector enterprises that were doing very well, the public sector Pohang Steel Company in Korea and the Government owned Singapore Airlines were often cited as examples of efficiency within the public sector in a highly competitive industry. The conclusion drawn from this was that public sector enterprises could be made efficient provided they were given the necessary degree of commercial autonomy to function efficiently.

2.8 Major problems of the Public Sector Enterprises in India:

The public sector enterprises in India were faced with the following problems:

1. Wrong selection of sites:
   The selection of sites of some public enterprises were carried out on political considerations rather than on economic considerations; for example, the Central Government’s decision to break up MIG Aircraft projects into two parts to be located in separate states (Nasik in Maharashtra and Koraput in Orissa are over 900 kms away.)

2. Under-utilisation of capacity:
   Under-utilisation of the production capacities are very common in the public sector enterprises. A large number of enterprises have operated at less than 50% of the capacity for a number of years. The over all capacity utilisation of all public sector units stood at 51% in 2002-03.

   This had been mainly due to the reasons such as long gestation periods, huge in built capabilities, ambitious scale of planning based on inadequate economic (particularly markets) data, inadequate motivation, lack of initiatives and obsolescence of the product mix.

   Lahiri points out in his study that the low level of profitability in the public sector units is largely due to poor utilisation of capacities, particularly
where capital investment is large, and in the case of units producing steel, fertilisers, machinery and tools.

(3) **Absence of rational pricing:**

Public sector enterprises in India are suffering from absence of rational pricing policies of their products. Thus, regulation of prices by the Government in the interest of the economy as well as price stabilisation is also responsible for huge losses incurred by the public enterprises. Again, subsidisation of the price of some of the products of the public enterprises created new dimension of the problems. In the Third Five Year Plan, the planning commission stated that profits should be large enough for financing the expansion programmes of the public enterprises.\(^{57}\)

(4) **Technological gap:**

Some of the public enterprises are suffering from technological gap as these enterprises are following the old system of production leading to high unit cost and lower yield. For that reason they are not able to enter into international markets. The public enterprises like Indian Iron and Steel Company and Eastern Coal Limited are suffering from this constraint.

(5) **Heavy social costs:**

Public sector enterprises are suffering from heavy social costs such as the outlays on townships and provisions of amenities to its employees. It has reduced the profitability position of different public enterprises. As on March 2002, public sector enterprises spent Rs. 6,756 Crore on township for workers housing.\(^{58}\)

(6) **Evil competition and sabotage:**

The competition between public sector and private sector units within the same industry some times leads to sabotaging of public sector units in a large scale.
(7) **Marketing constraints:**

Some big industrial houses sometimes capture a lion’s share of the market of certain products and it creates a big problem for the public enterprises. It leads to a constant increase in inventories.

(8) **Surplus manpower:**

In some of the public enterprises there is the problem of surplus manpower which is creating drainage of resources unnecessarily leading to increase in the unit cost of production. Political considerations have also contributed towards over-staffing of unskilled workers in these enterprises. For example, in Rourkela Steel Plant, there were as many as 40,000 employees in 1959, which were numerically reduced to 24,674 in 2002-03.

The labour costs were high because all the enterprises were over manned both in production and administration.

Management in the public enterprises is expected to have a special enlightened attitude towards amelioration of personnel problems, quick remedies of grievances and treatment of labour as partners.

(9) **Over capitalisation:**

Many of the industrial projects in the public sector are over capitalised. The parliamentary committees have commented on this aspect as well as the resultant unfavourable input-output ratio in many projects. The causes leading to over capitalisation as identified by a study team are inadequate planning, delays, avoidable expenditure during constructions, surplus machine capacity, tie up and resulting in the compulsion to purchase imported equipment on a non-competitive basis, expensive turn key contracts, bad selection of project sites and the provision of housing on a liberal scale.

According to the committee on public undertakings, there has been considerable variance between the original schedules established at the
commencement of the various plants of Hindustan Steel Limited and the actual time taken for the completion.

(10) Cost of delay and waste:

The public sector undertakings have less profitability due to low productivity, ill-conceived projects and delays in execution of projects. These units are rarely completed within the stipulated time and almost 95.0%\(^{62}\) of the projects taken up in the public sector could not be completed in time and sometimes the delays have been prolonged.

Waste is another serious problem faced by the central enterprises resulting in high cost of production. It can be either due to the defective functioning of the machines or the idle time of machines and men. A study of shut down period for maintenance in certain public sector units revealed that it was nearly double to that in the corresponding units in the West.\(^{63}\)

(11) Working Capital Management:

The management of working capital has not been given the proper attention it deserves in public sector enterprises. A common criticism of public sector management is that many of these enterprises did not have a system of control over inventory. There were excessive inventory holdings with consequent wastage and losses and borrowed funds were unduly locked up. The study team on public enterprises in its report observed that in five undertakings viz, Hindustan Teleprinters, Hindustan Aeronautics Limited, Hindustan Shipyard, Bharat Earthmovers and Bharat Electronics, the inventory holding was worth more than two years cost of production, in five other enterprises it was worth less than two years but more than one year cost of production.\(^ {64}\)

(12) Operational and Managerial inadequacies:

The public sector enterprises are suffering from operational and managerial inadequacies and inefficiencies leading to huge wastages and leakage of funds in their day to day activities. According to one estimate, as on
September, 1980, there were 13 enterprises without chairman. In some of these cases, the top posts had not been filled up for more than a year, for instance, Cotton Corporation of India and Hindustan Pre-fab Limited since 1976, Madras Fertilisers since December 1978 and Bharat Dynamics since September 1979. There were 38 enterprises without chief executives along with 50 posts of functional directors which remained unfulfilled.65

(13) Government interference:

It is essential to demarcate between control and autonomy in the context of managerial problems. Control of Government undertakings refer to their ‘accountability’ to parliament for their work. The accountability is justified on the plea that the public sector enterprises are run with the help of tax-payers’ money and the later has every right to know whether these enterprises are being run efficiently or not. Since, the will of the people is expressed through parliament, it is the latter that exercises control over the public sector enterprises. For this purpose, parliament constituted a separate committee known as the committee on Public enterprises in 1964. In addition to this committee, The Bureau of Public Enterprises, Public Accounts Committee, the Estimates Committee etc. also evaluate the performance of public sector enterprises from time to time.

‘Autonomy’ refers to the freedom given to the management of a public enterprise to run it without interference of outside agencies. Autonomy is very important for day to day operations of a public enterprise where many on the spot decisions have to be taken on a variety of issues that crop up before the management. Interference in such daily work is neither feasible nor necessary. In fact, it only creates impediments on the one hand and demoralises the management on the other.

The line between ‘control’ and ‘autonomy’ is very thin and has not been properly spelt out. Management of many public enterprises feel that control on their operations is too much and too frequent inhibiting the possibilities of independent action.
Considering the problems of sickness faced by public enterprises, the Standing Conference on Public Enterprises (SCOPE) had constituted a committee to study various aspects of sickness of public enterprises. In its report in Dec 1995 on its analysis of public sector undertakings problems, the committee felt that too much interference by the Government in areas like autonomy and accountability, constitution of board of directors, continuity to top management and little discretionary powers to management for investment, employment, pricing and wages affected the performance of public sector enterprises.

Bad financial planning was another reason of public sector undertakings sickness and for this many sick companies had over borrowed. The report (SCOPE) added here that “debt is a dangerous substitute for equity capital and interest on debt keep on accruing and has to be paid”.66

Various other problems such as allocation of resources, delays in filling up top level posts, tight regulations and procedures for investment and restrictions on functional autonomy of the enterprises; e.g., in respect of labour and wage policy etc. have been creating serious constraints on the operational efficiency of public sector enterprises of the country.67

2.9 Measures to be followed for the revival of public sector undertakings:

The following measures are worth mentioning for bringing a dynamic change in the horizon of public sector enterprises in India:

(i) Optimum utilisation of capacities for all the public sector enterprises in India is very necessary to find the causes of low capacity utilisation and thus remedy the situation by appropriate measures.68 The idle time of the machines is very serious problem in Steel, Fertiliser and Minerals and Metals group of industries where only 60 percent of their capacity is put to use.69

(ii) Technological upgradation of these enterprises to make it more complete and viable –the efficiency of a public enterprise should not be judged on the basis of profitability alone. The economic efficiency of a public sector industry
manifests itself alone in the transformation of the industrial structure, modernisation, higher labour productivity on a countrywide scale etc.  

(iii) Diversification of product mix.
(iv) Adoption of rational policy for the improvement of economic performance of these undertakings.
(v) Making the management more accountable to the public as well as to the Government.
(vi) Relieving the enterprises from unnecessary Government interference in their normal activities.
(vii) Workers' voluntary cooperation and participation for public sector improvement.
(viii) Withdrawing subsidisation policy at least from unproductive channels; i.e., Fertilizer Corporation of India Limited.
(ix) Less dependence on foreign sources of funds. A considerable amount of the excess costs and dynamic efficiencies of the public sector projects was due to the failure of the Government to break out of dependence on foreign sources of funds which were tied to sales of particular type of technology for setting up the installations.
(x) Sick public sector units should be merged together to make economically viable. There should also be re-structuring of loss-making enterprises.
(xi) Before the installation of these enterprises, pre-investment surveys should be conducted thoroughly. Delays in the installation of units should be avoided.
(xii) Establishment of public enterprises be based purely on economic and social welfare considerations rather than political pressures; i.e., M.I.G. Aircraft project at Nashik and Koraput.
(xiii) Management of public enterprises should be entrusted to the trained and skilful personnel. Indeed, a retired civil servant observed that officials deputed to the state enterprises were only birds of passage who looked forward with hopeful expectation to the plumes of office which the central secretariat could only offer.
(xiv) Adequate investment in research and development should be made in public enterprises to facilitate technology upgradation and absorption. All major
projects should include technology adoption programmes and for this purpose, adequate funds should be committed.74

(xv) The very rationale of setting up public enterprises under the Indian Companies Act or through an Act of Parliament was to guarantee them greater autonomy and to allow them to function free from letters of Government control and rules.75

(xvi) Improved managerial ethics will lead to an intrinsically desirable organisational order. Basically, if managers ensure outcome and procedural justice at work, they will create an intrinsically desirable organisational order.76

(xvii) Handling of sensitive issue of “right sizing, identifying avenues of expansion, where excess manpower could be deployed, or alternatively devising reasonable strategies for outplacement of excess manpower.”77

2.10 Summary:

It may, therefore, be concluded that public enterprises have now come to stay as an integral part of Indian Economy. It has been a part of socio-economic and political philosophy of the Indian nation. Right from the inception of the First Five Year Plan, the policy makers have given top priority to the growth and development of the public sector undertakings. There were only 5 units in 1951 which increased to 240 units under central public sector undertakings in 2002. Similarly, the investment of Rs. 29 Crore had been increased to Rs. 3,24,632 Crore in these enterprises. This depicts the tremendous importance given to these enterprises in the said period. Still then from profitability point of view, these enterprises are very poor. The return on capital employed was only 6.7% in 2001-02. Similarly, out of 240 central public sector enterprises, there were 109 loss making enterprises in 2001-02. It shows the dismal picture of the performance of public sector enterprises. About 50 percent of the total profits was contributed by the petroleum sector only in 2001-02. So, the financial performance of public enterprises did not match the pace at which they grew. In fact, their profitability criterion has remained far from being satisfactory. Although public enterprises have multiple and conflicting objectives, it is widely accepted that they must earn adequate returns on their investment for their own growth and that of the economy as a whole. In fact, profits have come mainly from sectors where state
enterprises have a monopoly or near monopoly. It has to be recognized that privatisation is not an end in itself but only a means to an end. There are a whole gamut of liberalization and regulatory policies that require to be in place before privatisation can succeed. Wherever it has worked, it was one of the steps in the liberalisation programme of the country. Still then, the public sector has grown in importance and has come to occupy a prominent place in the Indian Economy.

References:


16- Narain, Laxmi. op. cit., P-33.
22- Fourth Five Year Plan, A draft outline, Planning Commission, Government of India, New Delhi, P-11.
34- Ibid., RBI Report.
35- Ibid., RBI Report.
48- Ibid, P – 75.


51- Competition Wizard, op. cited, P-75.


67- Ibid.


