CHAPTER I

PUBLIC SECTOR ENTERPRISES IN INDIA: THE BACKGROUND

1.1 INTRODUCTION

Public Sector Enterprises have been playing a dominant and unique role in Industrial growth and development of Indian economy. In order to dismantle the accumulated problems of unemployment, disparities of rural, urban, inter-regional and inter-class disparities and technological backwardness and to set up a socialist pattern of society in the country\(^1\) establishment of Public Enterprises have been conceived. Public Enterprises have become the temples of modern India\(^2\). This is the vision of Pandit Jawaharlal Nehru, who laid the foundation for Modern India. With his sincere efforts and initiatives, India now has the basic and strategic industries like Coal, Steel, Minerals, Petroleum, Heavy Engineering, Chemicals, Fertilizers, Pharmaceuticals, etc., and has emerged as the major industrial base of the World\(^3\).

Public Enterprises were proclaimed towards gaining control over the commanding heights of the nation and for promoting critical developments in terms of

\(^1\)Trivedi, Priyajapati, “Public Enterprises in India: If not Profit then for What?”, Economic and Political Weekly, Vol.1, No.48, November 29, 1986.


social gain and strategic value and to generate commercial resources for capital formation. Besides, they are considered as powerful instruments of bringing about socio-economic transformation in our country. On the contrary to the expectations, the performance of most Public Sector Enterprises has been a below the planned targets. Many enterprises have accumulated deficits over a period of time causing considerable drain on the exchequer. This trend has attracted the attention of policy makers, politicians, bureaucrats, academicians, researchers and the public to find out the reasons for such a short fall in performance not only against the stated objectives but also their stand on adopting sound commercial principles of viability. Thus, there is a considerable need to examine and analyse the operational aspects of select Public Sector Enterprises which dominate the entire industrial base of our country.

1.2 GROWTH OF PUBLIC SECTOR IN INDIA

At the time of Independence, India was basically an agricultural economy with weak industrial base, low levels of savings and investment and lacks infrastructure. A vast majority of population was extremely poor. There were considerable inequalities in income, employment opportunities were low, serious regional imbalances were noticeable in economic attainments. It was felt obvious that if the country was to speed up its economic growth and maintain it in the long run at a steady level, a big 'push' with State initiative as an essential pre-requisite.


Besides, the Industrial Policy Resolution, 1948 laid down that the manufacture of arms and ammunition, the production and control of Atomic energy and ownership and management of Railway Transport should be in the exclusive monopoly of the Central Government. By doing so, it has sown the seeds for the growth of Public Sector.

The Constitution of India, adopted on 26th January 1950, directs the State as per Article of 39(b) and (c) to secure “that the ownership and control of the material resources of the community are so distributed as best to subserve the common good” and “that system does not result in the concentration of wealth and means of production to the common detriment”. Attainment of these objectives is fundamental to the growth of Public Sector Enterprises.

1.3  PUBLIC SECTOR UNDER FIVE YEAR PLANS

1.3.1 First Five Year Plan (1951-56)

The First Five year plan presented to the government by the Planning Commission in December, 1952, indicated the need for “a rapid expansion of the economic and social responsibilities of the State to satisfy the legitimate expectations of the people. The Government and rulers were realised that these would be achieved through the establishment of Public Sector.

Owing to the small size of the First Plan, insufficiency of funds

7 Ibid., p.32.
and greater urgency of agricultural development because of serious shortage of food and industrial raw materials, the First plan did not make any big provision for industrial development. However, it aimed at building up the basic services like Power and Irrigation so that Industrialisation may be facilitated. The Public Sector outlay on power, transport communication and industry were Rs.260 crores, Rs.520 crores and Rs.120 crores respectively.

During this plan period, several new products came to be manufactured for the first time. A number of new industries were established, for example, Petroleum refinery, Ship building, Manufacture of Aircraft, Railway wagons, Pencillin and D.D.T. However, the tempo of industrialisation during the First plan was slow.

1.3.2 Second Five Year Plan (1956-61)

The Second Five year plan envisaged the Public Sector in accordance with the Socialist pattern of society as the guiding political philosophy. Further, the Public Sector is expected to work as an instrument for checking concentration of economic power. Besides, the Second plan has been truly called the industrial plan. It aimed at laying the very foundation of industrial development in the country by building a number of important Heavy and Basic industries. The Public Sector outlay allocated to industrial sector was in the order of Rs.1080 crores. The actual investment in the Public Sector on organised industry was estimated at Rs.870 crores.

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A spectacular achievement of the Second plan was the remarkable expansion of Iron and Steel industry through the setting up of three huge Steel plants in Public Sector, viz., Rourkela, Bhilai and Durgapur steel plants. Besides, an appreciable expansion of heavy industries like Heavy Engineering, Chemical, Machine tools, Cement and Fertilizers has taken place. In short, the Second plan could be regarded as the first long-term planned initiative of the Public Sector to build up the base for the industrialisation of the country.

I.3.3 Third Five Year Plan (1961-66)

The plan emphasized on the \textit{“rapid development of Public Sector”} to serve a two-fold objectives of removing certain base deficiencies in the economic infra-structure and reduce the scope for accumulation of wealth and growth of monopolistic tendencies in private hands\textsuperscript{10}. The \textit{raison d'etre} of such an expansion of Public Sector could be found in the following statement of the then Indian Prime Minister, late Smt. Indira Gandhi, \textit{“We advocate public sector for three reasons: to gain control over the commanding heights of the economy, to promote critical development in terms of social gain and strategic value rather than primarily on consideration of profits and to provide commercial surpluses with which to finance further economic development”}\textsuperscript{11}.

The Public sector outlay on industrial development was Rs.1970 crores of which the investment component was around Rs.1700 crores. The Private sector investment during this plan period was about Rs.1300 crores. Substantial

\begin{footnotesize}
\item[10]Ibid., p.9.
\end{footnotesize}
additions to capacity were made for the manufacture of Machine tools, Coal mining machinery, Steel making machinery, Paper machinery, Cement machinery and Cotton machinery during this plan period. However, the progress in several crucial sectors was far from satisfactory in case of special steels, aluminum and fertilizers.

In short, during Third Plan, a vast base for future industrialisation emerged as a result of the completion of projects in areas of Heavy machines, Heavy chemicals and Steel and the annual growth rate of industrial output was in the vicinity of eight per cent

1.3.4 Fourth Five Year Plan

The Fourth plan emphasised the need for achievement of self-reliance in industry. Accordingly, it has proposed for faster expansion of industries producing capital equipment, petroleum products, chemicals and metals. It is also aimed at developing indigenous technologies, design and engineering skills and to reduce the import of foreign technologies. Besides, it has laid particular stress on the development of industries in the backward regions and preventing further concentration on industrial activity. However, the plan targets were fulfilled with a Public Sector's outlay Rs.3,630 crores and Private Sector investment during this plan period was Rs.2,250 crores.

Moreover, the plan envisaged for Public Sector "as the dominant and effective area of the economy so that it may take charge of the commanding heights in the production and distribution of basic consumer goods\textsuperscript{12}. The actual

performance during the plan was however disappointing. The annual growth rate was hardly five per cent as against the plan target of eight per cent.

1.3.5 Fifth Five Year Plan (1974-79)

The Fifth plan assigned a very important place to the development of industries with a view to achieving self-reliance and social justice. During this plan period, it is planned to invest substantially in industrial sector so that the country becomes self-sufficient and to have self-sustained growth. Also, the plan focused on the betterment of economically weaker sections of society, so that the gap between the rich and the poor is narrowed down. The total expenditure under the Fifth plan amounts to Rs 39,426 crores of which the share of the Public Sector was Rs 8,989 crores working out to 22.8 per cent. The plan envisaged the following pattern of investment and production:

1. Rapid growth of the core sector since they were vital for sustained growth on a long-term basis (Accordingly, high priority was attached to expansion in steel, non-ferrous metals, fertilizers, mineral oils, coal and machine building);

2. Rapid diversification and development of industrial exports,

3. Substantial increase in the production of mass consumption goods like Cloth, Edible oils, Sugar, Electricals, and

4. Restraint on the production of non-essential goods like luxuries and comforts.13

The average rate of industrial growth during this plan was targeted at 8.1 per cent per annum. However, the actual rate achieved was 5.2 per cent per annum.

While making a review of industrial development over the thirty years of planning, the Sixth plan noted that industrial production had increased by about five times. More important than this quantitative increase in output, the diversification of industrial structure covering broadly the entire range of consumer, intermediate and capital goods, is commendable.

The successive plans have stressed the increasing role of Public Sector in the removal of unemployment and under-employment and enhance the standard of living through the provision and distribution of essential commodities and providing infrastructural facilities. However, the pattern of industrial development was not sufficiently guided by cost considerations. Most, industries have tended to get established at sub-optimal capacities leading to a high cost of industrial structure.

In the light of the above, the Sixth plan has emphasized on optimum utilisation of existing capacities and improvements in productivity, enhancement of manufacturing capacity, special attention to the capital goods industry and electronics industry, improvement in energy efficiency, dispersal of industry, such alike. Of the total expenditure of Rs 1,09,292 crores proposed under this Plan, the share of Public Sector was marked at Rs 15,002 crores which comes to 13.7% cent. The period of the Sixth plan saw wide range of changes in the industrial policy of the government. The industrial and trade policies were substantially liberalised. As a result, industrial production started picking up but it has also created certain distortions.

The role of Public Sector is also clearly stated in the industrial policy of 1980 with a major stress on the optimum utilisation of installed industrial capacity, reduction in production, development of the export orientation and import substitution industries and also to establish the industries which reduce the regional imbalances. Rajiv’s government had marked new thrust towards liberalisations, *inter alia* through large scale delicensing, broad banding of industries which remained within the ambit of licensing and higher endorsements for capacity expansion. The fields like telecommunication, oil exploration, oil refinery and civil aviation, which were exclusively reserved for the Public Sector, now thrown open to the Private Sector.\(^\text{15}\)

### 1.3.7 Seventh Five Year Plan (1985-90)

The Seventh five year plan has re-emphasised the need for restructuring the Public Enterprises and stressed on their consolidation, improvement and modernisation rather than on large scale expansion of capacity except when it is imperative. The plan justified Private enterprises’ growth by stating that the industrial economy visualised in the Industrial Policy Resolution, 1956, is characterised by a symbolic and complementary relationship between the Public and Private sector.\(^\text{16}\)

The Seventh plan has envisaged for an annual growth rate of 8.7 per cent of industrial production. The total investment of Rs 19,708 crores was expected to be invested in the Public sector to promote industrial development. This target was sought to be achieved through the increase in efficiency, productivity and upgradation of


technology. It is heartening to note that the Seventh plan is deemed to have achieved the targeted industrial growth rate of 8.5 per cent. It has been made possible because of adequate infrastructure policies of the government.  

Industrial Policy Statement of 1991 is a total reversal of the existence of Public Sector in India. The statement admitted that many Public enterprises have become burden rather than the assets to the government and therefore, the government has to adopt a new approach to Public enterprises in the new economic scenario. The six dimension of approaches were suggested. These include,

1. Public enterprises to focus on strategic, high-tech and essential infrastructure items,

2. 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 for closure.

3. A part of the Public enterprises’ equity be offered to Mutual funds Financial institution general Public and Employees.

4. Public Enterprises Boards to be made more professional and be given greater autonomy and power.

5. Performance for improvement to be secured through the Memorandum Of Understanding (MOU) and

6. The Government should ensure that the Public enterprises are run on business lines as envisaged in the Industrial Policy Resolution of 1956.  


18. Government of India, Draft Seventh Five Year Plan, 1985-90, Planning Commission, Delhi, Vol 1, p 136
I.3.8 Eighth Five Year Plan (1992-97)

The Eighth plan is all set for managing the transition from centrally planned economy to market-led economy. The plan aims at rolling back the Public sector investment from those sectors of the economy where the private sector can move in. The problem afflicting Public enterprises is strategic, high tech and essential infrastructure will be squarely addressed with a view to making the sector strong and more dynamic. Besides, the thrust of new economic policy is towards creating a more competitive environment in the economy as a means to improve the productivity and efficiency of the Public sector and generates the necessary surpluses as was originally envisaged. It is only an efficient Public enterprise system that can enable the Government to meet its social obligation.19

Moreover, the Eighth plan envisaged a annual growth rate of 8.0 per cent in industrial production. The first year of this plan has witnessed 2.3 per cent growth which has increased to 4.1 per cent in the second year of the plan. Thus, during 1992-93 and 1993-94, the industrial growth rates fell short of the targeted growth rate. It was due to the factors like, the grip of recession. However, industrial growth rate has sharply picked up to 8.0 per cent in the rest of the plan period.

I.4 LIBERALISATIONS AND PUBLIC SECTOR POLICY

The change in economic policy of the Government has brought new challenges before the Public Sector Enterprises in India. Rajiv Gandhi’s Government brought out a sea change in terms of liberalisation of licensing policy in favour of large

19Dr. C. Rangarajan, “Economics Framework of the Eighth Plan”, Yojana, August 15, 1992
business houses, particularly, in terms of making them free from the provisions of MRTP Act and FERA. This attitude of the government has created new awakenings on management of Public Sector Enterprises which are expected to fulfill their objectives on par with Private Sector Enterprises. Different new approaches were pursued by the government during late 1980s. The Industrial Policy announced by the Congress (I) government, led by Mr. Narasimha Rao, on 24th July 1991 marked a significant departure from the concept of a command economy towards a market driven economy in which liberal market based economic policies were considered as the major stimuli likely to boost the development of the Indian economy. Besides, the new policy also marked a significant departure from the traditional command approach to Public Sector Policy and redefined its objective as one which will induce greater efficiency, productivity and competitiveness in the Public Sector.

This policy aimed to shed the load of the Public enterprises which have shown a very low rate of return or incurring losses over the years. Therefore, the government has adopted a new approach to Public enterprises. Units which may be faltering at present but are potentially viable must be restructured and given a new lease of life. Further, the government will strengthen those public enterprises which fall in the reserved areas of operation or in high priority areas or generating good and reasonable profits. Such enterprises will be provided a much greater degree of management autonomy through the system of Memorandum Of Understandings (MOUs). At the same time, there are a large number of chronically sick public enterprises.

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enterprises incurring heavy losses, operating in a competitive market and serving little or no public purpose. In order to make these units more viable, the following measures have been suggested:

i. Portfolio of Public Sector investment will be reviewed with a view to re-focus the Public Sector on strategic, high-tech and essential infrastructure;

ii. Public enterprises which are chronically sick and are likely to be turned around would for the formulation of appropriate revival or rehabilitation schemes be referred to the Board for Industrial and Financial Reconstruction (BIFR);

iii. In order to raise resources and encourage wider public participation, a part of the government's share holding in the Public sector would be offered to mutual funds, financial institutions, general public and workers; and

iv. There would be a greater thrust on performance improvement through the MOUs.

1.5 OBJECTIVES OF PUBLIC SECTOR ENTERPRISES IN INDIA

Although no specific objective is laid down on a 'white paper' or on a national document, one can gather together a set of objectives of the Public Sector from official documents from time to time. The principal objectives of Public enterprises are as follows:

i. Help in the rapid economic growth and industrialisation of the country and create the necessary infrastructure for economic development;

ii. Earn return on investment and thus generate resources for development;

iii. Promote redistribution of income and wealth;
iv. Create employment opportunities;

v. Promote balanced regional development;

vi. Assist in the development of small scale and ancillary industries; and

vii. Promote import substitutions, save and earn foreign exchange for the economy.

These objectives, for obvious reasons, have undergone changes over a period of time.

1.6 PROGRESS MADE BY PUBLIC SECTOR ENTERPRISES IN INDIA

Public Sector in India has been criticised vehemently by a number of supporters of the Private Sector who have chosen to shut their eyes towards the achievements of the Public sector. Following description be sufficient to convince one that Public sector has played significant and a definite positive role in the economy.

1.6.1 Size and Investment

In order to achieve the stated objectives, the government of India has made huge investments in the Public Sector over different plan periods. The phenomenal increase of the size and investment in this sector can be observed in the Table 1.1. The number of enterprises has increased from a mere Five companies in 1951 to as many as 243 companies in 1995-96. Similarly, total investment has also recorded a steep rise from a meagre amount of Rs.29 crores to a huge amount of a little over Rs.1,64,332 crores during the same period. The investment in the Public sector over the years has grown at an annual Compound Growth Rate (CGR) of 28.26 per cent during forty-five year period. Moreover, its spectacular
Table 1.1
Growth of Investment and Size in Central Public Sector Enterprises Since Independence

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Units (in Nos)</th>
<th>Total Investment (Rs. In Crores)</th>
<th>Growth Rate (in Percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950-51</td>
<td>5</td>
<td>29</td>
<td>-</td>
</tr>
<tr>
<td>1955-56</td>
<td>21</td>
<td>81</td>
<td>22.81</td>
</tr>
<tr>
<td>1960-61</td>
<td>47</td>
<td>948</td>
<td>63.55</td>
</tr>
<tr>
<td>1965-66</td>
<td>73</td>
<td>2410</td>
<td>20.52</td>
</tr>
<tr>
<td>1967-69</td>
<td>84</td>
<td>3897</td>
<td>17.37</td>
</tr>
<tr>
<td>1973-74</td>
<td>122</td>
<td>6237</td>
<td>9.86</td>
</tr>
<tr>
<td>1975-80</td>
<td>179</td>
<td>18150</td>
<td>19.49</td>
</tr>
<tr>
<td>1984-85</td>
<td>215</td>
<td>42673</td>
<td>18.65</td>
</tr>
<tr>
<td>1989-90</td>
<td>244</td>
<td>99329</td>
<td>18.41</td>
</tr>
<tr>
<td>As on 31.03.91</td>
<td>246</td>
<td>113869</td>
<td>14.64</td>
</tr>
<tr>
<td>As on 31.03.92</td>
<td>246</td>
<td>135445</td>
<td>18.95</td>
</tr>
<tr>
<td>As on 31.03.93</td>
<td>246</td>
<td>147587</td>
<td>8.96</td>
</tr>
<tr>
<td>As on 31.03.94</td>
<td>246</td>
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<td>11.35</td>
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<tr>
<td>As on 31.03.95</td>
<td>245</td>
<td>172292</td>
<td>-</td>
</tr>
<tr>
<td>As on 31.03.96</td>
<td>243</td>
<td>178628</td>
<td>-</td>
</tr>
<tr>
<td>GGR</td>
<td>9.48</td>
<td>22.26</td>
<td>-</td>
</tr>
</tbody>
</table>

CGR: Compound Growth Rate
growth in size of investment has diversified into various fields of activity. Public sector has created the infrastructure base for modern industrial economy and has helped the economy in achieving a very large measure of self-sufficiency in the matter of industrial equipment and machinery, designing of power equipment, basic drugs and chemicals, raw materials, aeronautics, making of steel, mining of coal and minerals, extraction and refining of crude oil, manufacturing of heavy machinery, machine tools, instruments and other commercial activities.

I.6.2 Generation of Employment

Public enterprise have a significant place in Indian economy as they have been generating and providing employment to various categories of people. From the Table 1.2, it can be stated that by 1995-96, as many as 20.51 lakhs of persons are employed in Public Sector Enterprises receiving an average emoluments of Rs.105,879 per annum. When these figures are compared to that of the 1975-76 figures, only 15.05 lakhs were in employment with an average emolument of Rs.8,983 per annum. The achievement within nineteen years appear significant. However, it could be noticed that Public enterprises have reduced the employment marginally since 1990-91 due to the introduction new economic policies. Despite of these new trends, Public Sector has saved the millions of population from the problem of unemployment and misery and helped in the stabilisation of Industrial production.
Table L.2

Generation of Employment and Average Annual Per Capita Emoluments in Public Sector Enterprises

<table>
<thead>
<tr>
<th>Year</th>
<th>Employment in Lakhs of Workers</th>
<th>Average Annual Per Capita Emoluments (in Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975-76</td>
<td>15.05</td>
<td>8983</td>
</tr>
<tr>
<td>1976-77</td>
<td>15.75</td>
<td>8940</td>
</tr>
<tr>
<td>1977-78</td>
<td>16.38</td>
<td>10048</td>
</tr>
<tr>
<td>1978-79</td>
<td>17.00</td>
<td>11201</td>
</tr>
<tr>
<td>1979-80</td>
<td>17.75</td>
<td>12468</td>
</tr>
<tr>
<td>1980-81</td>
<td>18.38</td>
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<td>19.37</td>
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<td>1982-83</td>
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<td>21.07</td>
<td>24328</td>
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<td>1986-87</td>
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<td>1988-88</td>
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<tr>
<td>1988-89</td>
<td>22.09</td>
<td>39415</td>
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<td>1989-90</td>
<td>22.36</td>
<td>43665</td>
</tr>
<tr>
<td>1990-91</td>
<td>22.19</td>
<td>49179</td>
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<td>1991-92</td>
<td>21.79</td>
<td>56508</td>
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<td>1992-93</td>
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</tr>
<tr>
<td>1995-96</td>
<td>20.51</td>
<td>105879</td>
</tr>
<tr>
<td>CGR</td>
<td>1.69</td>
<td>11.59</td>
</tr>
</tbody>
</table>

**CGR**: Compound Growth Rate

1.6.3 Contribution to Exchequer

The Public Sector enterprises have been making considerable contribution to the central exchequer by way of dividends, corporate tax, sales tax, excise duties and customs and other duties. Their contribution to the central exchequer on the whole increased at the rate of 21.17 per cent per annum from Rs.1,196 crores to Rs.32,096 crores by 1996-97 as can be observed from the Table I.3. The phenomenal growth is due to record rise in corporate taxes and dividends. Though the growth rates in excise and tax are low, these two resources have contributed 81.25 per cent of the total contribution made by the Public Sector to the government.

1.6.4 Contribution to Exports

Another significant achievements of Public Sector Enterprises pertains to their role in foreign trade and their contribution in earnings from foreign exchange for the country. As far as foreign exchange earnings are concerned, the Public Sector has contributed in three ways:

i. Through direct export of items produced in the Public Sector.

ii. Through services rendered by the Public Sector undertakings; and

iii. Through trading and marketing services of the undertakings through which the exports are canalised.
### Table L.3

**Contribution to Public Exchequer by the Public Sector Enterprises in India**

<table>
<thead>
<tr>
<th>Year</th>
<th>Dividend</th>
<th>Corporate Tax</th>
<th>Excise Duty</th>
<th>Customs and Other Duties</th>
<th>Total Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rs</td>
<td>Rs</td>
<td>Rs</td>
<td>Rs</td>
<td>Rs</td>
</tr>
<tr>
<td></td>
<td>(2)</td>
<td>(3)</td>
<td>(4)</td>
<td>(5)</td>
<td>(6)</td>
</tr>
<tr>
<td>1975-76</td>
<td>21</td>
<td>177</td>
<td>998</td>
<td>-</td>
<td>1196</td>
</tr>
<tr>
<td>1976-77</td>
<td>50</td>
<td>237</td>
<td>1089</td>
<td>-</td>
<td>1376</td>
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<tr>
<td>1977-78</td>
<td>58</td>
<td>251</td>
<td>1230</td>
<td>-</td>
<td>1539</td>
</tr>
<tr>
<td>1978-79</td>
<td>72</td>
<td>225</td>
<td>1756</td>
<td>834</td>
<td>2887</td>
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<td>1979-80</td>
<td>76</td>
<td>229</td>
<td>2168</td>
<td>966</td>
<td>3539</td>
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<td>1980-81</td>
<td>84</td>
<td>222</td>
<td>2508</td>
<td>888</td>
<td>3302</td>
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<td>1981-82</td>
<td>109</td>
<td>579</td>
<td>2558</td>
<td>1321</td>
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<td>1982-83</td>
<td>115</td>
<td>928</td>
<td>2667</td>
<td>1827</td>
<td>5537</td>
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<td>1984-85</td>
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<td>1190</td>
<td>3407</td>
<td>2837</td>
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<td>1986-87</td>
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<td>4117</td>
<td>3753</td>
<td>9061</td>
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<td>1988-88</td>
<td>297</td>
<td>1338</td>
<td>5545</td>
<td>4904</td>
<td>12884</td>
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<td>1988-89</td>
<td>320</td>
<td>1212</td>
<td>6142</td>
<td>7458</td>
<td>15132</td>
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<tr>
<td>1989-90</td>
<td>353</td>
<td>1415</td>
<td>6649</td>
<td>7935</td>
<td>16352</td>
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<td>1990-91</td>
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<td>8598</td>
<td>7899</td>
<td>18264</td>
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<td>1301</td>
<td>9075</td>
<td>9731</td>
<td>19520</td>
</tr>
<tr>
<td>1992-93</td>
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<td>1858</td>
<td>8652</td>
<td>8754</td>
<td>19951</td>
</tr>
<tr>
<td>1993-94</td>
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<td>2160</td>
<td>8200</td>
<td>11297</td>
<td>22449</td>
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<td>1014</td>
<td>2348</td>
<td>9861</td>
<td>9765</td>
<td>22988</td>
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<td>2720</td>
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<td>11060</td>
<td>27172</td>
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<td>2205</td>
<td>3998</td>
<td>11908</td>
<td>13985</td>
<td>32096</td>
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<tr>
<td>CGR</td>
<td>22.64</td>
<td>14.58</td>
<td>12.81</td>
<td>13.82</td>
<td>16.83</td>
</tr>
</tbody>
</table>

*CGR : Compound Growth Rate

The Public Sector Enterprises' export earnings are depicted in Table 1.4. The earnings of the Public enterprises from exports have substantially rose from Rs.1640 crores in 1975-76 to Rs.11,326 crores in 1995-96 which constituted roughly 43 per cent of the total industrial exports. Thus, the Public Sector enterprises have today come to command a very substantial share of the total exports.

Table 1.4
Export Earnings of Public Sector Enterprises

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports of Public Enterprises (Rupees in Lakhs)</th>
<th>Percentage Growth Over The Previous Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975-76</td>
<td>1640.00</td>
<td>42.50</td>
</tr>
<tr>
<td>1976-77</td>
<td>1753.00</td>
<td>6.90</td>
</tr>
<tr>
<td>1977-78</td>
<td>1562.00</td>
<td>-10.90</td>
</tr>
<tr>
<td>1978-79</td>
<td>1834.00</td>
<td>17.40</td>
</tr>
<tr>
<td>1979-80</td>
<td>1913.00</td>
<td>4.30</td>
</tr>
<tr>
<td>1980-81</td>
<td>2217.00</td>
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<td>2756.00</td>
<td>24.30</td>
</tr>
<tr>
<td>1982-83</td>
<td>4747.20</td>
<td>72.60</td>
</tr>
<tr>
<td>1983-84</td>
<td>5532.10</td>
<td>16.53</td>
</tr>
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<td>1984-85</td>
<td>5831.45</td>
<td>5.41</td>
</tr>
<tr>
<td>1986-87</td>
<td>3822.32</td>
<td>-34.45</td>
</tr>
<tr>
<td>1988-88</td>
<td>3941.78</td>
<td>3.31</td>
</tr>
<tr>
<td>1988-89</td>
<td>4176.48</td>
<td>6.03</td>
</tr>
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<td>1989-90</td>
<td>4892.22</td>
<td>17.14</td>
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<td>1990-91</td>
<td>6365.84</td>
<td>30.12</td>
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<td>1991-92</td>
<td>7085.82</td>
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<td>1992-93</td>
<td>8979.78</td>
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<td>1993-94</td>
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<td>1994-95</td>
<td>11935.52</td>
<td>13.38</td>
</tr>
<tr>
<td>1995-96</td>
<td>11326.18</td>
<td>11.04</td>
</tr>
<tr>
<td>CGR</td>
<td>11.05</td>
<td>15.06</td>
</tr>
</tbody>
</table>

CGR : Compound Growth Rate

1.6.5 Public Sector And Capital Formation

The role of Public Sector in collecting savings and investing them during the planned era has been very important. During the First and Second plans of the total investment, 54 per cent was in the Public Sector and the remaining in the Private Sector. The share of Public Sector enhanced to 60 per cent in the Third Plan. The Fourth, Fifth and Sixth plans envisaged respectively 59 per cent, 57.6 per cent and 53 per cent share in Public Sector of total plan investment. However, for the first time since the advent of planning, the Seventh plan reduced the share of Public Sector investment to below 50 per cent and kept at 47.8 per cent compared to 52.2 per cent for the Private Sector. At the same time, the Public Sector financial institutions have played an important role in collecting savings and mobilisation resources.

The share of Public Sector in Gross Domestic Savings (GDS) was 16.2 per cent during 1980-81, 7.3 per cent in 1992-93 and 6.9 per cent in 1995-95. During the period of Sixth plan, the public sector’s saving was 18.6 per cent of this total GDS and it is declined to 10.8 per cent during the period of the Seventh Plan. Another element of contribution of Public Sector to economic development is its role in total Gross Domestic Capital Formation (GDCF) which has gone up from about 40 per cent during 1970-75 to about 52 per cent during the Seventh plan period22. Hence, the Public Sector has played a positive role for the capital formation of the country for the past five decades.

1.6.6 Development of Infrastructure

Economic Development in any underdeveloped country depends on infrastructure. Without sufficient doses of investment in expansion power and energy,

Transportation and Communication facilities, and basic and heavy industries, the process of industrialisation cannot be sustained. India had inherited an undeveloped basic infrastructure from the colonial period. After independence, the Private Sector neither showed any inclination to develop itself nor did it has any resources to make this possible. It was comparatively shy both financially and technically and was incapable of establishing a heavy industry immediately. This has forced the state’s participation in industrialisation essential, as the state could enforce a large scale mobilisation of capital, the co-ordination of industrial construction and training. The Public Sector has not only improved the road, rail, air and sea transport system, but also expanded them in manifold. Thus, the Public Sector has enabled the economy to develop a strong infrastructure for the further economic growth. At the same time, private sector also has benefited immensely from these projects undertaken by the Public Sector.

I.6.7 Achievement of Balanced Regional Development

The Government of India tried to use its power of setting up of newer industries as a means of removing regional disparities in industrial development. In the pre-Independence period, much of the industrial progress of the country was limited in and around the port towns like Mumbai (Bombay), Calcutta and Chennai (Madras). All other parts of the country lagged far behind. Through the initiation of the Planning Commission in the country by 1951, the Government of India has paid particular attention to this problem and has set up industries in a number of areas hitherto neglected by the Private Sector. Thus, a major proportion of Public Sector investment has been directed towards backward states and backward regions of the country. For instance, all

the four major steel plans in the Public Sector, namely, Bhilai Steel Plant, Rourkela Steel Plant, Durgapur Steel Plant and Bokaro Steel Plant, were set up in the backward States. Further, it is believed that the setting up of large scale Public Sector projects in the backward areas would unleash a propulsive mechanism in them and cause economic development of the hinder-land. Hence, these considerations also guided the location of machinery and machine tools factories, aircraft, transport equipment and fertiliser plants, such alike in backward areas.\(^24\)

1.6.8 Import Substitution and Export Promotion

Availability of foreign exchange reserves often emerged as a serious constraint on the programmes of industrialisation in a developing economy. The constraint appeared in a rather strong way in India during the Second plan and the subsequent plans. On account of these considerations, all such industries that help in import substitution are of crucial importance for the economy. The establishment of Bharat Heavy Electricals Limited (BHEL), Bharat Electronics Limited (BEL), Hindustan Antibiotics Limited (HAL), Indian Oil Corporation (IOC), Oil and Natural Gas Commission (ONGC), etc., in the Public Sector is of special importance from this point of view.

Moreover, several Public Sector Enterprises have also played a vital role in expanding the exports of the country. The Hindustan Steel Limited (HSL), Hindustan Machine Tools Limited (HMT), Bharat Electronics Limited (BEL), State Trading Corporation (STC) and Metals and Minerals Trading Corporations (MMTC) were established for this purpose.

1.6.9 Development of Ancillary and Small Scale Industries

An important constituent of governments’ industrial policy is the development of small scale and ancillary industries to help the achievement of socio-economic objectives such as generation of employment, reduction in disparities of income, promotion of balanced regional development and decentralisation of industries over large areas. For this purpose the Public Sector enterprises spelled out the steps to be taken by them to accelerate the growth of ancillary industries through buying their input requirements as per the Government’s guidelines.

1.6.10 Working Results of Public Sector Enterprises

The Public Sector Enterprises made significant and eventful record in terms of turnover, output, promotion of exports, contribution to the exchequer, generation of employment opportunities, development of ancillary and small scale sector. But the financial standing and profitability of most of these units are not very much satisfactory.25 An analysis of the working results of Central Government enterprises during 1975-76 and 1995-96 attempted hereunder. It is true that the efficiency of Public Sector Enterprises cannot be measured in terms of profitability alone. However, other criteria like their capacity to contribute to the public exchequer, generation of employment opportunities, earnings through foreign exports, regional balanced development and other social considerations26 should also be given weightage in


the evaluation of their performance. But in our country, where there is a paucity of funds, profit is no doubt of paramount important criteria. If an enterprise fails to make profit, ultimately it leads to the erosion of its share capital and if this situation is prolonged further the enterprises ceases to exist\textsuperscript{27}. In this regard, it is an important to recall that the Planning Commission expected a minimum return of at least 11 to 12 per cent on investment made in Public Sector\textsuperscript{28}. Therefore, planned profits are a must for the establishment of socialistic pattern of society\textsuperscript{29}.

During 1975-76 and 1995-96, the investment in the Central Government Enterprises grew by more than 17.69 times from Rs 9.006 crores in 1975-76 to Rs 1,73,874 crores in 1995-96 registering an annual growth of 16.32 per cent as can be seen from the Table 1.5. The gross margin from the operations of these enterprises have also grown over the years at the rate of 19 per cent which is larger than the rate of investment in these enterprises. Besides, the size of gross profit after depreciation also enhanced of the rate of 19.08 per cent per annum. The sizes of gross margin and gross profit when compared to that of the capital employed are showing a proportion ranging from 11.20 per cent in 1975-76 to 17.83 per cent in 1993-94 and 7.42 per cent and 11.57 per cent respectively. These rates of profitability would leave anything towards net profit if one considers the administrational and other expenditure. Many studies\textsuperscript{30} have concluded that the present level of growth in gross profits absolutely negligible to earn any satisfactory rate of return on capital employed.

\textsuperscript{27}S.S. Marathe, “Re-assessing the Public Sector”, \textit{Indian Management}, March 1995, p.22.


### Table 1.5

**Profitability Profile of Public Sector Enterprises During 1975-76 and 1995-96**

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Enterprises</th>
<th>Capital Employed</th>
<th>Gross Margin Surplus Before Depreciation, Interest and Taxes</th>
<th>Depreciation and DRE</th>
<th>Gross Profit</th>
<th>Interest</th>
<th>Pre-Tax Profit (after setting off losses of loss making Units)</th>
<th>Percentage of Gross Margin to Capital Employed</th>
<th>Percentage of Gross Profit to Capital Employed</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975-76</td>
<td>125</td>
<td>9006</td>
<td>1014</td>
<td>345</td>
<td>668</td>
<td>363</td>
<td>306</td>
<td>11.26</td>
<td>7.42</td>
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<tr>
<td>1976-77</td>
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<td>1028</td>
<td>607</td>
<td>421</td>
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<td>9.29</td>
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<td>12065</td>
<td>1489</td>
<td>574</td>
<td>915</td>
<td>755</td>
<td>160</td>
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<td>7.58</td>
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<td>1766</td>
<td>695</td>
<td>1071</td>
<td>886</td>
<td>185</td>
<td>12.64</td>
<td>7.69</td>
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<tr>
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<td>2055</td>
<td>826</td>
<td>1229</td>
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<td>225</td>
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<td>7.60</td>
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<td>2173</td>
<td>19.25</td>
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<td>5790</td>
<td>10622</td>
<td>5329</td>
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<td>19.36</td>
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</tr>
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<td>20.16</td>
<td>17.49</td>
<td>2.39</td>
<td>2.37</td>
</tr>
</tbody>
</table>

CGR : Compound Growth Rate

The most important criticism levied against the Public Sector has been that, in relation to the capital employed, the level of profits have been too low. Even the Government of India has criticised the performance of the Public Sector Enterprises. For instance, the Eighth Five Year Plan notes that the Public Sector has been unable to generate adequate resources for sustaining the growth process. Moreover, the poor performance of Public Sector Enterprises is due to a host of problems which may be classified into financial and non-financial problems based on various studies. Some of the problems can be enlisted as follows:

1. Under utilization of installed capacity is a major reason for the low level of profitability and poor performance in Public Sector Enterprises particularly in case of capital intensive units. A large number of these enterprises have operated at less than 50 per cent of their capacity for a number of years. It affected the operational efficiency of the enterprises.

2. Generally, prices are determined at a level that would cover total cost (including taxes) and provide a sufficient net return over and above this. As against this, the pricing policy is determined by the political and social objectives rather than financial objectives. Lack of rational pricing policy has resulted in poor profitability and has left little profits for financing the expansion programme.

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33 Planning Commission, op. Cit.
Most Public Sector Enterprises are over-capitalised and hence productivity of capital is low due to poor planning, heavy expenditure during construction, wrong selection of project sites and allocation funds on non-productive heads.

Excessive dependence on external sources of funds and consequent interest payment obligations affected the commercial viability of most Public Sector enterprises. The poor generation of internal sources is attributed to the poor financial performance of these enterprises.

Poor planning and delay in implementation of projects resulted in a raise in the cost of the projects. Cost escalation was due to changes in project sites some times due to a belated recognition of product mix that is unsuitable to Indian market conditions. Starting the projects behind the schedule is leading to make most projects non-viable.

The failure to give adequate return on the huge Public Sector investment has been a major contributing factor towards the recent fiscal and foreign exchange crisis which has put severe strains on the Indian economy.

Lack of autonomy, political considerations in filling top management positions and frequent interference into the affairs of day to day administration by respective

2. Venkata Chalam G and Dakshinamurthy D, "Poor Returns and Low Generation of Funds in the Indian Public Sector", Public Enterprises, Vol 9, No 1, 1989 p 49
ministries reduced the flexibility in taking up commercially viable decisions and thereby incurred large amount of opportunity losses.\footnote{39}{Bapat, N.G., "Losses in Public Sector Enterprises: Government should not Interfere into Day-to-Day Affairs", \textit{Yojana}, December 29, 1979, pp.9-10 and Summit Chakravarthy, "Autonomy to Public Sector for Revitalisation", \textit{Yojana}, April 16-30, 1987, p 17}

Thus, it is evident that Public Sector Enterprises were incurring losses continuously due to the presence of numerous financial and non-financial problems. Besides, one essential cause for the losses incurred by these enterprises in the poor operating and financial performance of these enterprises. At the same time, policy makers, bureaucrats, managers and also researchers have not given due weightage and importance on this problem. Hence, this present study is planned to explore into this dimension.

\section{1.8 PRIVATISATION TRENDS: A NOTE}

The new Industrial Policy announced by the Government of India in July 1991 emphasised the economic stabilisation and structural reforms which aim at creating a competitive and market driven economic environment in India. Further, it stipulated that the Government "ensure that the Public Sector is run on business lines".\footnote{40}{R Viswanathan and S. Roy Chaudhary, "Restructuring the Public Sector: The Privatisation Option", \textit{Public Enterprises}, Vol.14, Nos 1-2, 1994, p.49} The new economic policy of 1991 stressed the following four measures to reform the Public Sector enterprises in India.

i. Reduction in the number of industries reserved for the Public Sector from 17 to 8 (reduced to 6 later on) and the introduction of selective competition in the reserved areas.
The disinvestment of shares of a select set of Public Sector Enterprises in order to raise resources and to encourage equity participation of general public and workers in the ownership of Public Sector Enterprises;

The policy towards sick Public Sector Enterprises to be the same as that for the Private Sector; and

An improvement of performance through an MOU system by which management are to be granted greater autonomy but held accountable for specified results. In addition, there was a drastic reduction in the budgetary support to sick and potentially sick Public Sector Enterprises.

I.8.1 Dereservation

The new industrial policy had reduced the list of reserved industries to the Public sector from 18 in 1956 to 8 in 1991. They are: (1) Arms and Ammunition, (2) Atomic Energy, (3) Coal and Lignite, (4) Mineral Oils, (5) Mining of Iron Ore, Manganese Ore, Chrome Ore, Gypsum, Sulphur, Gold and Diamond, (6) Mining of Copper, Lead, Zinc, Tin, Molybdenom and Wolfram, (7) Minerals specified in the schedule to the Atomic Energy (Control of production and use order, 1953), and (8) Rail Transport. In 1993, items 5 and 6 were deleted from the reserved list As of now, only 6 industries are reserved for the Public Sector. Thus, of the 18 industries reserved for the Public Sector since 1956, as many as 12 are now open to the Private Sector.

1.8.2 Policy Regarding Sick Units

The Industrial Policy of July 24, 1991 marked a significant departure from the concept of a command economy towards a market driven economy in which liberal market-based economic policies are considered as the major stimuli to boost the growth and development of the Indian industries. Besides, the policy has suggested the status of Public Sector units to be on par with the Private Sector units. Public Sector Enterprises have also been brought within the jurisdiction of the Board for Industrial and Financial Reconstruction (BIFR). The BIFR that will decide whether a sick Public Sector unit be effectively restructured or it has to be closed down. As on December 31, 1995, 138 cases of public sector units (59 belong to Central Government and 79 belong to States) were referred to BIFR. Of this, 28 cases were dismissed as not maintainable revival scheme was sanctioned for 29 cases, while winding up was recommended to the concerned High Courts in 14 cases (5 Central and 9 States).

The decision to close down the sick Public Sector enterprises has naturally caused widespread resentment in the working class as the danger of retrenchment of labour now looms large. To solve this problem, the government has set up a National Renewal Fund (NRF) for retraining and redeployment of retrenched labour and to provide compensation to Public Sector employees seeking voluntary retirement.

1.8.3 Memorandum Of Understanding (MOU)

The MOU system is presently the centre piece of Public Sector reform in India and the new Industrial Policy of July 1991 which seeks to make it an effective

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42Sunil Khatn and Rasto Macus", Strategic Options for Restructuring the Public Sector in India", Public Enterprise, Vol 14, Nos 1-2, 1994, pp 3-19
mechanism for performance improvement by providing greater management autonomy to Public Sector Enterprises and at the same time making them accountable by various means.

Furthermore, a MOU is an instrument which defines the relationship of the Public Enterprise with the government (Administrative Ministry) and clarifies their respective roles in order to achieve better performance. The emphasis is on achieving the negotiated and agreed targets rather than interfering in the day to day affairs.

When the MOU system commenced in the year 1987-88 when only four units signed performance contracts by the end of the year 1994-95, the number of such enterprises had gone up to 99. Of these, the Department of Public Enterprises has rated the performance of 39 as excellent and of 26 as very good. Only the performance of two were rated poor while evaluation for 16 is pending. Thus, the financial performance of these enterprises was better than what was targeted for in the MOUs.

1.8.4 Disinvestment

The major plank of the privatisation in India has been the disinvestment of government's equity in a select number of profit making Public Enterprises. The primary objective of disinvestment may be to mobilize resources on long-term with an aim to enhance efficiency and improve the performance of Public Sector units and to realign with the economic policies pursued by the government. Based on the suggestions of Rangarajan Committee in 1993, the rationale behind the disinvestment programme is to raise non-inflationary form of finance to meet the budgetary needs which include requirements of development activities and social obligations. This programme commenced in 1991-92 and by December 31, 1995, the government had disinvested a
part of its equity in 40 Public Sector Enterprises and had raised an amount of Rs. 10,500 crores through the various rounds of disinvestment during July 1, 1991 to December 31, 1995. The shares were initially offered to select financial institutions and Mutual Funds. But since 1992-93, they are being offered to the public as well. The government is also planning to offer shares of Public enterprises to the workers of these enterprises.\(^{44}\)

Thirty one PSUs were selected for disinvestment in the first phase of 1991-92 in the areas of Petroleum, Fertilisers, Chemicals, Computers and Communication, Electronics and Heavy Engineering which are engaging virtual monopoly and were mainly the 'cash cows' with 'star performance'. Privatisation of public enterprises in India can take place either through ownership transfer or management transfer or financial transfer, the framework of which is given below:

I.8.4.1 Ownership Transfer

The ownership transfer has already taken place in the case of some PSUs in India. For instance in Uttar Pradesh, UP Auto Tractors Limited has been handed over to M/s Sipani Automotives Limited. In Andhra Pradesh, the Allwyn Nissan Limited has been handed over to M/s Mahindra and Mahindra Limited.

I.8.4.2 Management Transfer

Management transfers have taken place in State Owned Public Enterprises of Rajasthan. A sodium sulphate plant of a departmental enterprise has been decided to be given on lease basis.

1.8.4.3 Financial Transfer

Financial transfers are gaining the greatest momentum. The privatisation of Maruti Udyog Limited is a case in point wherein the government has become a minority shareholder.

However, the privatisation is not considered as a panacea for the present day ills of the economy. Neither people have an excessive faith in the market forces. Quite a significant section of our society is opposed to privatisation for a variety reasons. V.V. Ramanathan, a noted researcher on Public Sector, places the issue in a very succinct manner: "in view of the historical background of Public Enterprises in India, it is inconceivable that privatisation in this country will be accepted by the society as an end itself, since there is no consensus in favour of market solutions and property rights non considered as prime factor for much needed social and economic change. This implies that privatisation will have to be viewed essentially as the best possible means of achieving pre-determined targets and ensuring that it does not distort the parameters of such ends".

I.9 REVIEW OF EARLIER STUDIES

Public attention in our country has been focused on so much on the performance of the Centrally sponsored Public Undertakings in order to know their stand and prospects in changing economic environment. In this section an attempt is made to review the existing literature in evaluating the operating and financial performances of Public Sector Enterprises with a view to identify the gaps that exist.

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46 V.V. Ramanathan, Privatisation in Developing Countries, Routledge, London, 1990, pp. 186-187
in the field of research on Public Sector Enterprises. The studies conducted by different researchers and agencies are examined in the following paragraphs.

An early attempt has been made by Professor Ramanathan\(^\text{46}\) on "Finances of Public Enterprises", in 1971 wherein he has examined and analysed different aspects of financing of public enterprises. While focussing his attention on the profit and profitability criteria, he has explored into the impact of pricing policies on the public sector financing.

Sharma\(^\text{47}\) has highlighted the problems of financing the operations of public enterprises at different stages such as gestation, operation and expansion. It is observed from the study that the government was the major provider of finances of these enterprises. The pattern of financing during period was similar to the gestation period. The contribution of internal funds was far behind the potential mainly due to the poor operating profits which led to the dependence on borrowed funds in the total capital structure of these enterprises.

Singh\(^\text{48}\) has made an exploratory study on the performance of public enterprises during the period of ten years ending 1979-80. He has identified a number of reasons for poor performance of public enterprises. These include the long gestation period, adoption of administered price policies, managerial inefficiencies and indifferences, lack of accountability, role of politicians in policy making, etc..

\(^\text{47}\) Sharma B.S., Financial Planning in Indian Public Sector, Vikas Publishing House, New Delhi, 1974.
Bagchi\textsuperscript{49} had made an evaluation on the role of Public Sector Enterprises in India against the explicit and implicit objectives during the period of 1976 and 1985. He has appreciated the performance of these enterprises in respect of their efficiency in generation of employment and their contribution to the net domestic savings in India. He lamented on the non-implementation of different recommendations made by the different Committees for the betterment of the efficiency of these enterprises. He has pleaded for restructuring the management styles and accountability aspects of these enterprises.

Bhatia\textsuperscript{50} has made a review on different studies relating to the profitability performance of public enterprises. The studies reviewed by him have concluded that the common melody for deteriorating performance of public enterprises is the lack of commitment and lack of accountability of management at all levels.

Prakash\textsuperscript{51} had made an attempt to find out a suitable criteria for measuring the efficiency of Public Sector Enterprises in India. After a careful analysis of the works of different authors like Sargent Florance, Gilber Walker, Om Prakash, Keshav and others, he suggested a set of different financial measures to evaluate the efficiency of Public Sector Enterprises. He has identified certain financial ratios, namely, profit before tax to sales, profit before tax to net worth, value of production to networth and inventory turnover ratios as better indicators of performance. However, he has admitted that the measurement of efficiency of public enterprises is not always possible as against multiple objectives for which they are established.


Another study in the same pattern is that of the Bansal\textsuperscript{52}. He has tried to identify the financial measures of performance in Public Sector Enterprises by constructing 91 different types of ratios. He has employed the 'factor analysis' to consider different sets of variables to evaluate the profitability of Public Sector Enterprises.

Rao\textsuperscript{53} of Reserve Bank of India has evaluated the performance of non-financial non-departmental enterprises in Public Sector covering a period of two decades ending 1980-81. He observes good capital-output ratios and capital formation rates during this period. He has evaluated the productivity in operations by employing Cobb-Douglas production functions between operating surpluses and the fixed assets turnover ratios. He found that the entire capital formation is financed through borrowings either from government or other institutional agencies. He has observed that the hike in inflation rate has been reducing the operating surpluses to the extent of 0.92 per cent with every one per cent rise in Price Index.

Srinivasan\textsuperscript{54} has made a study on some of the recent trends in financing Public Sector Enterprises in India. He observes that the role of equity has been declining in public enterprises from 26.4 per cent to 20.6 per cent and interest bearing funds have been occupying 30.3 per cent to 33.6 per cent of the total capital structure during 1975 and 1983. These shifts together with increasing interest rates have hiked up the interest burden of the enterprises and have adversely affected the financial


viability. This is contrary to the performance of private sector enterprises who were able to bring down the share of costlier bank loans during the same period. He suggested for adopting a more realistic approach in the preparation of financing plans and adoption of innovative modes of financing, considering the debt capacity and the available operating surpluses in Public Sector Enterprises.

Kapadia\textsuperscript{55} has made a study to find out the contribution of 'taken-over' units in the poor financial surpluses earned by Public Sector Enterprises during 1978-83. He observes that the taken-over units account for 18 per cent of total investment, 22 per cent of total sales turnover and much higher 45 per cent of employment of all Central Government enterprises. He observes that 48 taken-over units are in red during the entire six year period of the study amounting to a loss of Rs.936 crores. He suggests for no-more take-overs of sick industrial units just for the sake of protecting the employment of these units subsequently behaving as relief undertakings and most of these are non-viable to achieve the commercial results from them.

Chalam and Murthy\textsuperscript{56} have made a study on the performance of Public Sector Enterprises in India and they have attributed the poor financial performance to the excessive use of external sources in their (Public Enterprises) capital structure. They have evaluated the effects of heavy external finances on net incomes and on short-term liquidity position, in turn effecting the working funds available for successful operation. They have suggested for allowing more private equity participation; increasing the operating efficiency through controlling costs and improving the capacity utilisation and factors such alike.

\textsuperscript{55}Kapadia, M.S., "Public Sector's Poor Financial Returns: Place for Taken-Over Units", Financial Express, No.7, 1985, p.5.
Viswanathan\(^57\) has evaluated the performance of Public Sector Enterprises during 1979-80 and 1984-85. Among the two categories of industrial units, he observes that the production-oriented industries are faring in a better way than the others. In the light of loosing entire capital-base by some of the loss making enterprise, he recommends for the adoption of Join Stock concept by erring the enterprises on rails.

Trivedi\(^58\) has made an analysis on the working of Public Sector Enterprises to construct a criterion for evaluating their financial performance. While discarding the concept of profitability as traditional criterion on the grounds that this criterion suffers from the problem of accounting limitations, he has suggested a simple multiplier indicator. As per his indicator, the performance is a weighted average of labour productivity and the ratio of production to its capacity. Further he has suggested an eight-step alternative measure for evaluating the performance of a unit in Public Sector.

Gupta\(^59\) has made a study to find out how the investments in Central Public Enterprises are financed. He has analysed the role of extra budgetary provisions and the recent prominence of Public Sector bonds, external commercial borrowings, inter-enterprise borrowings from specialised co-ordinating committees, development funds and such others. He observes that the Governments' budgetary


support has been declining during the recent past. This has made the enterprises to find sources for themselves on competitive lines.

Venkatchalam has made a study on the performance of Public Sector Enterprises especially considering the trends and relative roles of external and internal sources, covering a period of nineteen years from 1960-61 to 1978-79. He has evaluated the financing pattern of Public Sector Enterprises and found that these enterprises were increasingly dependent upon external sources of finance. The borrowings from government and semi-government agencies continuously increasing. He has observed that the imbalances in the financial structure caused by heavy doses of debt capital has created the interest burden and it is constituting in its own way for the poor financial performance. He has suggested for improving the operating efficiency through allowing private equity participation, re-organization of capital structure and rationalisation of pricing policy.

Chattopadhyay has brought an evaluation work on the performance of Central Government enterprises covering a period of 18 years from 1969-70 to 1986-87 He has presented the criticism levelled against the performance of Public Sector Enterprises and evaluated that the Public Sector units to have the potential to record much better results, provided they are run on business lines by maximising the rate of return on capital employed. He has put forwarded a number of suggestions to improve the working of these units, including the application of principles of sound management.


Shastri Mehta has made a survey on the existing literature on the working of Public Sector Enterprises during the last three and half decades and feels that because of the interference from different quarters, from project approval to implementation, leads to lack of accountability. He estimates that the delays, poor co-ordination, wrong decisions, wrong selection of sites, machinery and staff have costed the nation to the extent of 10 per cent of total Seventh Plan outlay. He suggests for writing off the accumulated losses of some Public Sector undertaking and give a chance to introduce a new work-culture for the future betterment in them.

Sankar and Sari have conducted a comparative study on Private and Public Sector enterprises with respect to their financial efficiency during period between 1986-87 and 1988-89. The study identifies that the Private and Public Sector Enterprises differ in creating a surplus to the extent of 9 per cent on Sales. The Capital employed in Public Sector Enterprises showed a better performance. The profits earned in Private Sector is three times higher in size of the equity than in the public sector. Capital Structuring strategy and the accumulation of reserves helped the private sector to a high financial efficiency.

Rao and Latha have made study on the Financial Management and Productivity in Public Sector Enterprises covering a period of Ten years from 1975-76 to 1985-86. Operational and Financial Performance of these enterprises were evaluated through various operational and financial ratios. It was observed that high

62Shastri Mehta, "Has Public Sector Lived upto Our Expectations", Yojana, April 16-30, 1987, pp 12-16


capital-output ratio and slow growth rates in partial and total factor productivities as explanation for poor profitability in most public enterprises during the period. It was also noticed from the study that there exists wider fluctuations in operating cost responsiveness, utilisation of resources and excessive investment on fixed assets of these enterprises. The study identified lower profitability in these enterprises during the study period and suggests for improvement by allowing these enterprises work in an entrepreneurial atmosphere.

Majumdar\textsuperscript{65} has examined a study on relative performance of Public, Joint and Private Sectors in Indian industry during the period of 16 years between 1973-74 and 1988-89. The performance of these sectors was measured through growth rates in Total Fixed Assets, working capital and human capital against the output of the respective sectors. The study results indicate that the joint sector firms are efficient than government owned firms but less efficient than those of in the private sector.

Indrasena Reddy\textsuperscript{66} made a study on the performance of Public Enterprises through value added approach during the period from 1988-89 to 1992-93 selecting BHEL as a study unit. It is observed from the study that the productivity ratios in terms of value added in relation to various resources of BHEL were increasing during 1988-89 and 1992-93 except with regard to Capital Employed. The study concludes that there exists greater scope for further improvement of Value added ratios if BHEL followed suitable cost control measures.


All the studies, reviewed so far, present the different dimensions of problems associated with the poor financial performance in Public Sector Enterprises. While some of them are stressing on the removal of operational problems on the working of these enterprises like capacity utilisation, shortages, parliamentary control, etc., the others are explaining about the serious implications of borrowings from the Government and the required changes in policies to be brought in for better management of these enterprises. The recommendations of different studies paved the way for the current trend of partial disinvestment in select Public Enterprises in India.

An attempt is made in the present study to throw some light on the existing gaps in the operational and financial problems of Public Enterprises in India which are left unattended by Government of India, excepting putting forth its 'privatisation plans' year-after year for financing partially the fiscal deficits in Annual budgets

**I.10 NEED FOR THE PRESENT STUDY**

The studies referred above are presenting the performance of Public Enterprises and the problems being faced by these enterprises without making any in depth enquiry into the inter-relationship associated and their consequent impact on financial performance. Moreover, none of the studies have made any systematic attempt to employ sophisticated operations, research techniques to work out the extent of under-utilisation of resources at the current levels of efficiency and capacity utilisation. Further, use of financial and management ratios of limited number, as are suggested by International Labour Organisation (ILO) or working groups, is extensive rather than identifying the broader trends in other aspects of financial performance is also present in
these studies. Hence, the present study was taken up to analyse the overall trends in operating and financial performance of select Public Sector Enterprises belonging to Heavy and Medium Engineering groups, by appropriately linking up the relevant aspects of performance. Besides, this study is intended to employ different sophisticated statistical and econometric techniques before qualifying any aspect of performance for wider acceptability and appreciation.

1.11 CHAPTER PLAN

A broad picture about the performance of Public Sector Enterprises, the financial and non-financial problems being faced by them, a brief review of earlier studies to evaluate the functioning of these enterprises and the need for the present study are given in this introductory Chapter I.

Chapter II, provides the objectives of the current study, Methodology adopted, Sources of Data, Limitations, Size of the sample units, Statistical and Econometric tools employed and a brief profile of the chosen sample units.

The operating performance in terms of trends in Capital-output ratios, Value added, Total and Partial Factor productivities are analysed in Chapter III.

Chapter IV has contained the results of the analyses conducted in respect of financial performance of the study units, the capital formation, sources of finance, trends in select financial yardsticks and the results of principal component analysis.

The trends in managerial performance is examined by constructing different financial ratios as suggested by International Labour Organisation (ILO). These
include the general performance, managerial performance and financial performance dimensions. The results are presented in Chapter V.

Chapter VI provides the econometric results of different multiple regression equations fitted to establish the changes in various determinants in capital formation and financing.

The final Chapter VII presents the broad findings and conclusions of the present study.