1.1. The Public Enterprises

The word 'entrepreneur' appeared in the French language long before the emergence of the concept of entrepreneurial functions. In the early 16th century it was applied to those who were engaged in military expeditions. In the 17th century it was extended to cover civil engineering activities such as construction and fortification. It was only in the beginning of the 18th century, that the word came to be used to refer to economic activities. The entrepreneur and his unique risk-bearing function was first indentified in the early 18th century by Rechard Centillon, an Irishman living in France, who defined an entrepreneur as a person who buy factory services at 'certain' prices with a view to sell its product at certain prices in the future thereby bearing a non-insurable risk.¹

There is, in the existing literature on public enterprises, a conspicuous absence of writings with a direct bearing on this theme. This is true of an early pioneer who conceived the idea of public corporation (W.F. Willoughby, 1917; Herbert Morrison, 1933) as of those, who at a later date, sought to reassert the cause of the corporate autonomy (Marshall Dimock, 1949).²

A public enterprise, owing to the fact that its sole or majority ownership is vested in the government, has necessarily to be politically directed.³ This element of
political direction is manifested in a number of powers which the government reserves to itself vis-a-vis its enterprises. These, inter alia include the power of making appointments and securing dismissals of the board level and other key personnel, the power of sanctioning capital expenditure above the stipulated limits, and the power of issuing directions and the like.

1.2 Public Enterprises and the Indian Constitution

The immediate task before an underdeveloped country is, not merely to get better results within the existing framework of economic and social institutions, but also to mould and recondition these institutions so that they could contribute effectively to the realisation of wider and deeper social values. The Directive Principles of State Policy are basics in the governance of the country. It shall be the duty of the State to apply these principles in making laws. The State shall try to promote the welfare of the people by securing and making as effectively as it may, a social order in which justice, social economic and political shall inform all the institutions of national life (Art. 34). It shall in particular, direct its policy toward securing:

(a) that the citizens, men and women, equally have the right to an adequate means of livelihood,
(b) that the ownership and control of the material resources of the community are so distributed as best to reserve the common good,
(c) that the operation of economic system does not result in the concentration of wealth and means of production to the common determinant.

Thus, the public sector is an offshoot of the philosophy enshrined in the Indian Constitution to make the best possible use of natural resources of the nation to augment the national income.

1.3 Growth of Public Sector Enterprises

S.S. Khera observes that "the nineteenth century concept that the interests of society are best served by the State interfering as little as possible with the life of the people has lost its meaning, and with it, has lost support. He further states, "....the State today, far from being merely a passive observer of the economic process which once it was, emerged as an active participant, taking upon itself the role of protector, of controller of guardian of the citizen and of entrepreneur". Rightly so, the public sector occupies a pivotal place in India's economic strategy today. Since long it was expected that investments in this sector would generate further resources for rapid economic growth.
Placing the public sector on the road to the dynamic and self-made growth is a must for Indian economic progress. Manufacturing and commercial units are set up by the government to speed up economic progress. The government owns some of them wholly subscribing to their capital or by acquiring control over management or by holding over 50 percent of the share capital. The number and variety of such concerns are on the increase. The public sector has considerably grown during the last four decades. This comprises a large variety of manufacturing undertakings producing basic goods like steel, fertilizers, chemicals, mining, electrical goods, machine tools, pharmaceuticals and refining, insecticides, ship building, air craft and locomotives, oil exploration, coal, news print, heavy electricals, electronics etc. and non-manufacturing activities like industrial finance, life insurance etc. In short, they cover all industries and services of basic and strategic importance. Their increased scope and variety spring up from the government's decision to assume direct responsibility for future development of industries over the wider areas, and translate into action, the blueprint of socialistic pattern of society. Huge investments have been made and considerable expansion of plant capacity taken place.

Prior to the Industrial Policy Resolution of 1948, the public sector enterprises were confined to the field of
transport and communication like railways, port-trust and telegraphs, telephone, overseas communication, broadcasting, electricity generation, irrigation and a few departmental workshops; but with the commencement of economic planning in 1951, the growth and development of public sector enterprises has been phenomenal. It has emerged as an important factor in India's economic growth. The non departmental industrial and commercial undertakings of the central government numbering around 244 alone, exceeded investment of Rs.1,00,000 crores. To glance the growth in investments made in these undertakings during the past-independence period, the changing profile is detailed under in table 1.1

<table>
<thead>
<tr>
<th>Period of Plan</th>
<th>Total Investment (Rs. in crores)</th>
<th>No. of Enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>I Plan 1.4.1951</td>
<td>29</td>
<td>5</td>
</tr>
<tr>
<td>II Plan 1.4.1956</td>
<td>81</td>
<td>21</td>
</tr>
<tr>
<td>III Plan 1.4.1961</td>
<td>953</td>
<td>48</td>
</tr>
<tr>
<td>(Three annual Plans)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IV Plan 1.4.1969</td>
<td>3902</td>
<td>85</td>
</tr>
<tr>
<td>V Plan 1.4.1974</td>
<td>6237</td>
<td>112</td>
</tr>
<tr>
<td>VI Plan 1.4.1980</td>
<td>8225</td>
<td>186</td>
</tr>
<tr>
<td>VII Plan 1.4.1985</td>
<td>42811</td>
<td>233</td>
</tr>
<tr>
<td>As on 1.4.1990</td>
<td>99315</td>
<td>244</td>
</tr>
</tbody>
</table>

In addition, there are 802 state level public enterprises as on March 31, 1987 with an investment of over Rs.13,000,000 crores. If we include the state electricity board and the road transport corporations their number stands at 845 with an investment of over Rs.46,000 crores.6

1.3.1 Industrial Policy in India

The term 'industrial policy' covers all those procedures, principles, policies, rules and regulations which control the industrial enterprises of the country, and shape the pattern of industrialisation. It incorporates fiscal and monetary policies, labour policy and also the government's attitude towards external assistance, public and private sector as well.

The history of public enterprises in India, since independence can be traced through the several industrial policy statements made by the government. The present position is the outcome of Industrial Policy Resolution of 1948 and the Industrial Policy Resolution of 1956.7

The Industrial Policy Resolution of 1948 aimed at greater production and the distribution of wealth so produced in order to establish a society wherein justice and equality of opportunities would prevail. The resolution, therefore, envisaged a greater role for the state in the economic development of the country.8
India's industrial policy since the Industrial Policy Resolution 1948, following the adoption of a mixed economy, has undergone a number of changes till the beginning of 1980s, increasing the role of the state in regulating and controlling the industrial activities in a variety of ways. The Industrial Policy Resolution of 1948 contemplated a mixed economy reserving a sphere for the private sector, and another for public sector.

Government of India adopted Policy Resolution, on April 20, 1956. This resolution replaced the earlier 1948 resolution. New Industrial Policy was considered essential in the light of important developments and changes during the period 1948-56.9

The Industrial Policy Resolution of 1956 came on the heels of proclamation, ushering in, a socialistic pattern of society as the national goal. It gave a pivotal role to the state with public sector occupying the commanding heights of the economy. The two major public sector enterprises of Himachal Pradesh viz. Himachal Pradesh State Electricity Board (HPSEB) and Himachal Road Transport Corporation (HRTC) established in 1971 and 1974 respectively, are also the outcome of the philosophy incorporated in the Industrial Policy Resolution of 1956.
1.4 Socialism and Public Sector

The primary objective of the Public enterprises in the establishments is a socialist society in India. In their resolution to the socialistic pattern of the society this means that" the basic criterion for determining the lines of advance must not be private profit but social gain, and that the pattern of development and the structure of socio-economic relations should be so planned that they result, not only in appreciable increases in national income and employment, but also in greater equality in income and wealth."^10

The adoption of the socialistic pattern of society of the national objective, as well as, the need for planned and rapid development require that all industries of basic and strategic importance, or in the nature of public utility services, should be in the public sector, and other industries which are essential and require investment on a scale which, only the state in the present circumstances could provide, have also to be in the public sector.11

The philosophy of socialism pushed more industries under the umbrella of the public sector. Government assumed responsibility for setting up basic industries to provide the industrial base to lift the economy to a higher level of growth. More and more industries vital to national growth were included in the public sector. The state alone,
could mobilise enormous financial resources and foreign exchange on such a scale, and in an effective manner, taking into account the totality of the needs of the country. Technical know-how and foreign exchange supplies would require prolonged and constant follow up with the governments abroad. Detailed planning and negotiation with foreign agencies could be done only through a centralised agency and the most suitable one was the government. The latter wanted to achieve the greatest good in a short time span.

1.5 National Goals and Public Sector

Government believes that committal to national goals, such as, speedy rate of growth, higher national and per-capita income, reduction in inequality, will be achieved through setting up industries in the public sector. Economic planning is accepted as the philosophy for economic progress and the planning commission has been set up with the responsibility of planning for the entire country. Policy, laid down by that body, can be appreciated and implemented better, if basic industrial undertakings are set up by the government. Private undertakings can't be expected to implement the plans, policies and programme fully in time with the national economic goals. So, public enterprises are expected to accomplish this objective timely, effectively and rapidly.

The past thirty years have witnessed a phenomenal
growth in the number of public institutions at what Ira Sharkansky calls the "margins of the State." To perform the varied and complex tasks of modern government, developed and developing nations have believed it necessary to take much responsibility for the performance of significant public functions in 'quasi-government', and other types of autonomous agencies outside the traditional government framework.

The goals, which the public sector enterprises are expected to achieve are many and varied. Not all of them are clearcut, precise and tangible; often these may be inconsistent with their commercial viability. The public sector enterprises are expected to secure the aims of public policy. For instance, it is hoped that they would act counter weights to abuses of economic power and may also help usher in, a more just and equitable social order. Moreover, they may provide right levers to public authority to guide the economy into planned directions.

1.6 Place of Public Sector Enterprises in Indian Economy

Public Enterprises have come to occupy a key role in the policies and programmes of economic development
in our country. They have been a significant part of the Indian economy even before the advent of independence. In the very nature of things, it is expected that the public enterprises will have a expanding role in times to come. The logic of the establishment of public enterprises as a part of socio-economic policy is inherent in the economy. Public Enterprises have been set up not simply for ideological reasons; they are the product of economic compulsions. Besides the active role, which the government has to play in a developing country, bound by its social policy, many public enterprises have to be set up because of the unenterprising or misenterprising nature of private entrepreneurs. The evolution of the public sector enterprises in the economy and polity of India is of very recent origin. Unlike in the western countries like the U.K., France, Germany, Sweden and Italy, its initiatory in India, can be compressed within the last four decades or to be more precise within the period following the attainement of independence in 1947. The scope of public enterprise has increased steadily during the First and Second Plan. Although the contribution of public sector enterprises to the national income had been quantitatively small during the said plan periods, but it has been much more significant subsequently in the succeeding plans.
According to the Bureau of Public Enterprises (1985), the public sector has been steadily growing since independence. Prior to independence, we had hardly five enterprises with an investment of Rs.290, million, by April 1984 we had 214 enterprises with an investment of Rs.3,54,110 million. By April 1986, the number rose to 235 enterprises with an investment of over Rs.4,00,000 million. Their activities range from production of sophisticated items to heavy equipments and from area of financial management to construction, consultancy, research and development. They are now the basis for the economic growth of the country.

1.7 New Economic Policy

A significant change has taken place in the world scenario in recent years, especially on economic front. The technological advancement has brought the different nations of the world closer to each other to the extent that all problems particularly economic ones are tackled collectively for the mutual benefit. This increasing interaction resulted in a more open world economy.

Rightly responding to the needs of changing times, the Government of India three years ago realised that it would be in the interest of the nation to join the process of globalization taking place the world over as it was unwise to live in isolation and thus announced its New Economic Policy (NEP).
Liberalisation & privatisation from the two major components of the New Economic Policy launched by India during 1991. Liberalisation is the term being used to a variety of reforms aimed at opening up to the economy. This removal of various forms of control such as licences and permits as well as other barriers to investment represented by MRTP and FERA. One of the objections of this report programme is to unite and enlarge investment both domestic and foreign.

In a major liberalisation drive, the Govt. has scrapped MRTP Act and amended the foreign exchange regulation Act (FERA) during January 1993 which all over foreign investment up to 49 per cent of the large number of industries and equity investment of larger foreign equity even up to 100 per cent in selected cases, especially for export-oriented production. After the scrapping of MRTP Act and FERA, many multinational companies have hiked their equity holdings to 51 per cent or so. As an adjunct to the policy for industrial restructuring and opening up to increasing areas for private investment in industries sectors hitherto reserved for public sector, the Govt. constituted a Rangarajan Committee on disinvestment by the Govt. of its share in public enterprises. The main recommendation of this committee is total privatisation of selected PSEs, disinvestment of 49 per cent of equity in areas for public sector and 74 per cent in non-
areas; swapping external debt liabilities with equity; application of general principles governing foreign and NRI investors to PSE disinvestment ten per cent of proceeds for expansion needs to PSEs etc.

The above, recommendations of the Ranganatha Committee reveals that the target level of govt. ownership of shares wholly owned at present will vary from zero to fifty one per cent, the latter in areas currently wholly recover for public sector. But in most other instances, the govt. ownership is going to be cut sharply.

There has been considerable debate in the country about the economic liberalisation and privatisation. In many less developed countries of world such as Pakistan and Bangladesh privatisation is practised as a way to reduce fiscal and credit presumes by getting rid of losing public enterprises which continuous budget subsidise and in of credit.

The poor performance of the public sector undertakings in India is also reflected in very low return on investment. The growing monopoly of public sector units led to the decline in their efficiency and consequent increase in the capital output ratio resulting in reduction of profits and capital available for reinvestment. Although, public sector enterprises were fulfilling social objections but the cost involved was substantial as the
return on investment was minimal and in fact even today it is only around 2.3 per cent. \(^{14}\)

As a result, investment in public sector shows a decreasing trend and private sector increasing its share. The public sector accounted for 54.6 percentage of total investment during the second plan with the private sector accounting for the remaining 45.4 per cent. The public sector's share increased to 57.6 per cent in the fifth plan, since then declining and now stands at 45.2 per cent during the Eighth Plan while the private sector share has been gradually increased to 54.8 per cent.

The private sector on its part has played an important role as partner in India's progress. It has supplemented the efforts of government to push ahead the economy. Private enterprises also contributed significantly to India's economic development in the past with the expected privatisation of the public sector ushered in as a result of new economic policy, the Indian economy would become a market oriented economy dominated by private enterprises.

In case of India, the pastral or complete private ownership of PSEs may decrease political intervention and will lead to an improvement in productive efficincy. There are also a realisation that may public functions can be performed by private sector more efficiently and economically. These include mining, manufacturing, electricity, transport etc.
In pursuance of the New Economic Policy, the State Govt. of Himachal Pradesh has decided to entrusted certain electric projects to private sector.

**Projects Entrusted to Private Sector**

<table>
<thead>
<tr>
<th>Capacity</th>
<th>Name of the Project</th>
<th>Party</th>
</tr>
</thead>
<tbody>
<tr>
<td>300 Mw</td>
<td>Baspa Hydro Electric project Stage II in Kinnaur</td>
<td>M/s JPIL</td>
</tr>
<tr>
<td></td>
<td>GWMW Karcham Wangto -do</td>
<td>M/s JPIL</td>
</tr>
<tr>
<td>86MW</td>
<td>Malana Hydro Electric Project</td>
<td>M/s Rajasthan Spining Weaving Mill Ltd.</td>
</tr>
<tr>
<td>70 MW</td>
<td>UHL-III In Mandi</td>
<td>M/s Ballarpur Industries Ltd.</td>
</tr>
<tr>
<td>70MW</td>
<td>Dhamwari Sonda Hydro Electric</td>
<td>M/s Harza -do</td>
</tr>
<tr>
<td>231MW</td>
<td>HIBRA Hydro</td>
<td>M/s Rajasthan Spining and Weaving Mills Ltd.</td>
</tr>
<tr>
<td>192MW</td>
<td>Allain Duhangan Hydro Project</td>
<td>M/s Rajasthan Spining and Weaving Mills Ltd.</td>
</tr>
<tr>
<td>12MW</td>
<td>Neogal Hydraulic</td>
<td>M/s Om Powers</td>
</tr>
</tbody>
</table>

**Source:** Himachal Pradesh State Electricity Board Secretariat, Kumar House, Shimla-4.
With the involvement of private sector, it is expected that the vast electric potential available in the state will be exploited expeditiously & efficiently. Similarly, a militing privatisation of road transport has also been done in the state especially in the urban areas. Since the topography of the state of such and conditions of roads deplorable, the private sector is not coming around to stake up project in transport in the state.

1.8 Public Enterprises Classification

The term 'public enterprises' is used loosely in most countries and applied to a highly diverse collection of organisations variously called public corporations, authorities, boards, companies, institutes, banks, mixed enterprises, holding companies, autonomous agencies and government sponsored enterprises.15

However, the different countries have adopted different forms of public enterprises at different points of time. Constitutional provisions, forms of government, political tradition, economic background, social requirement and similar other factors have determined the
forms of organisation and management of public enterprises in developed, and as well as in developing countries.

In India, the public enterprises can broadly be classified as departmental undertakings, boards, statutory corporations sectoral corporations, companies and joint stock companies etc. A brief description of each of them is given as under:

(i) Departmental Undertaking

This is the oldest and traditional form of public enterprise and, in the earliest process of nationalisation, was introduced in Post and Telegraphs, Railways, Defence Industries and some utility services. They are technically and directly subordinate to a ministry. However, these undertakings conform to the essential definition of an organisation and a management. They are self contained; they have external delimitation and a management of its own in each case, incharge of and responsible for the undertaking.

(ii) Board

Though there is no basic difference between departmental undertakings and boards, so far as, over all government control is concerned, yet some difference exists in order to introduce flexibility and to remove unnecessary delays. An
inter departmental committee or a board is set up consisting of representatives from those ministries which are concerned with the project or which are required to be consulted in the execution of plan or in taking any decision. Such a committee or board is entrusted with overall management of the enterprise. Important examples of such type of organisations are Bhakra Control Board, Chambal Control Board and the State Electricity Boards, etc.

(III) **Statutory Corporation**

The third category comprises of statutory corporation. A statutory corporation comes into existence as a result of decision taken by the legislature which is subsequently embodied in the form of an Act. It differs from departmental undertaking or government company which are created by the executive without any special legislation.

A statutory or public corporation may be defined as "a legal entity created by government but exterior to government organisation, hence finally independent for carrying on specific activities prescribed in the law creating it.""18

"The statutory corporation is a corporate entity for legal purposes and can sue and be sued, enter into contracts and acquire property in its
name. Except for appropriation to provide capital or cover losses, a statutory corporation is generally independently financed.\textsuperscript{19}

"The theory of public corporation finds its earliest expression in one of the articles of W.F. Willoughby, published in the Political Science Quarterly (Vol. XXXII, No.4, Dec; 1917).\textsuperscript{20} Inspired by the successful working of British and American colonial policies which were based upon the idea of delegation of substantial administrative and financial autonomies to their respective colonial territories, Willoughby recommended the device what he called the 'holding and subsidiary corporation' form of organisation for the operation of public enterprises to relieve the national government and congress to a considerable extent of the ever increasing scope and variety of functions that were being imposed upon them. Realising that both the executive and congress have neither sufficient time nor appropriate qualification to administer certain of their special services, particularly all of the revenue producing enterprises of the government, he suggested that the administration of such enterprises be entrusted to distinct subsidiary corporations to which the congress would stand as a holding corporation."
(iv) Sectoral Corporation

A distinguishing feature of public enterprises is that more than one public undertaking, with an independent status have been set up in the same field. Most of these undertakings are individual undertakings which directly function under the ministry and depend on the same, not only for policy matters, but also for solution of all the other problems that arise when more than one undertaking operates individually in the same field. The establishment of a number of individual undertakings of varying sizes operating in the same field of the industry has resulted into a fragmentation of industrial efforts in the public sector.

(v) Company

In the case of companies, the management is set up by registration of a company under the Companies Act. The management is established by issuing and registering with the Registrar of Companies, the Memorandum and Articles of Association under the Companies Act of 1956. After the Company is registered, the management is set up according to the provisions in articles (which invariably contain provisions about the management), the Chairman and the Managing
Director, as well as the other Directors on the Board, are then appointed.  

Government Companies receive their funds from the government treasury and or from the public as the case may be. A Government Company can acquire property and can sue and be sued in the court of law. It is the statutory body and is governed by the Memorandum of Association and Articles of Association.

1.9 Public Enterprises and Financial Administration

According to Encyclopaedia of social sciences the term 'financial administration' refers to that part of fiscal sciences which is concerned with the principles and practices underlay a sound system of financial administration which according to the encyclopaedia, are unity of organisation and centralised responsibility, strict compliance with the will of the legislature as expressed and formulated in the budget, simplicity, promptness and regularity of functioning and finally an effective, but not complicated system of control by the standing committee and control by audit to ensure that legislature's 'will' have to be fulfilled and the control exercised by the treasury are all part of financial administration.

Now, the important question is whether public enterprises which demand more financial autonomy, have
given enough thought to set their own finance on sound basis? Does the financial management of these enterprises always recognise that the task of enforcing efficiency and economy should occupy an important place in any public undertaking? The budget regarded as a compass indicating the course on industry, should take its financial administration and the wheel, with which it can steer that course. 'Budgets have become one of the recognised aids to management both for formulating policy and keeping check on its execution.' Now the question arise whether the full potentialities of budgeting, as an essential management-accounting function, has been realised by our public enterprises? While public undertakings clamaour for greater financial autonomy: have their board and chief executives delegated sufficient powers to their subordinate staff for operational efficiency and have they, within the limits of their authority, liberalised the accounting and the financial rules needed for a commercial concern or have they fallen a prey to the easy course of following the civil service procedure and routine which do not suit their requirements? An answer to these question will reveal how well our state enterprises manage their financial affairs.

There is little evidence of financial discipline in our public sector enterprises. This is partly so because public sector enterprises get much of their capital and funds for operational deficit through the easy course of budgetary appropriations. They do not have to undergo that ordeal and the difficult process of capital planning, that
a private sector board of management has to do. Though this is natural in the scheme of things, the public sector enterprises of their own, has generated little 'surpluses' to meet the requirements of further capital expansion. The Five Year Plans have made pious resolutions to obtain substantial surplus from public sector enterprises or projects for financing the plans. Moreover, those public sector enterprises which have not been able to generate a significant amount of surplus should be allowed further capital expansion. Would it not be better if public sector enterprises try to look at alternative sources of capital resources, instead of always making demands on the government's budgetary resources? Such questions demand an in-depth study of the financial administration of public sector enterprises in the country.

In the public sector, the financial system works on the principle that the determination of expenditure is both logically and chronologically appropriate prior to considering the means of raising the revenue to meet the expenditure. This is the reverse of private finance where, in prudent circumstances, expenditure will be limited to the extent of income. The productivity of public finance arises from the onerous nature of governmental activities, from the situation that governments traditionally did those things which in the words of Adam Smith, "....though they may be in the highest degree of advantageous to a great
society, are however of such a nature that the profit could never repay the experience to any individual or small number of individuals.24 The reason being that some governmental activities are of such a nature, that there are hardly any means of identifying individual beneficiaries, apart from the society, as a whole, in other governmental activities, while individual may benefit directly from them, few would be motivated sufficiently to seek their provision by the offer of a demand price. Government then provides and also uses its power to levy taxes to secure the revenue necessary to meet the costs involved.

After the attainment of independence, there has been an increasing concern for rapid socio-economic development of our country and role of public sector enterprise managers, researchers and parliamentarians on working out ways and means for toning-up the working and performance of public sector enterprises and to make them play an effective role in the national development.25 One important aspect of evaluation of working and performance of any public enterprise is by studying its financial administration. Administration and finance are as inseparable as body and its shadow. All administrative acts involve expenditure of money, at least for hiring the necessary personnel to carry out the jobs, purchase of raw-materials and make the infrastructure available for making
the financial and make the infrastructure available for making the financial goods and services. Finance fuel the administrative engine to achieve the objectives of an organisation. Rightly, therefore, did Kautilya remind "all Undertakings depend upon finance. Hence foremost attention shall be paid to the treasury." Finance is life blood of all monetized socio-economic formations ranging from small families to complex national and international organisation. Financial administration relates to the system which generates, regulates and distributes monetary resources needed for the sustenance and growth of an organisation. It has a central role in an enterprise and includes budgeting, raising funds in the capital market, selecting and evaluating investment projects and planning the organisation's marketing and pricing strategies. Every creating a charge on the treasury or making a contribution to it. Nothing can be made without the expenditure of money. Available financial sources set a maximum limit of administrative activity as a whole and, on each of its separate parts. The management of finance, therefore, is one of the first inseparable responsibility in the administration of public enterprises.

In view of the importance of the financial management for the effective working of public enterprises, the present work endeavours to study the pattern of financial administration in two major public sector enterprises of Himachal Pradesh viz. HPSEB and HRTC.
1.10 Objectives the Study

Although, there were various considerations behind creation of the vast network of the public sector in India, yet doubts have been expressed regarding its efficient functioning for quite sometimes. Added to this, is the absence of proper evaluation criteria for the public sector enterprises. Moreover, public sector enterprises have been demanding more financial autonomy. Therefore, the study of financial administration of public sector enterprises becomes more important. Thus, the main objectives of the present study are as under:

(i) To make a comparative study of the financial administration of two big public sector enterprises namely HPSEB and HRTC to know the similarities and dissimilarities in the financial administration of these enterprises.

(ii) To study the existing position and ways of handling of day-to-day financial management such as working capital management in the above mentioned public sector enterprises.

(iii) To highlight the impact of legislative control over the financial administration of public sector enterprises in the state and their public accountability.

(iv) To make suggestions to improve the financial
health of the above mentioned public sector enterprises.

1.1.1 Scope of the Study

The present research work is a comparative study of the financial administration of two public sector enterprises of the state in HPSEB and HRTC.

(i) The study covered only Sixth and Seventh Five Year Plan period. This has been done due to limited time and resources available at the disposal of the researcher.

(ii) It covered the growth and working of these organisations.

(iii) It covered the pattern of financial administration, such as budgeting, financial decision making and auditing.

(iv) It covered the study of management of working capital of both these organisations.

(v) The study discussed the legislative control over public sector enterprises with special reference to the role of Committee on Public Undertakings (CPU).

1.1.2 Methodology

Research in common parlance refers to a search for knowledge. One can define research as a scientific and systematic search for pertinent information on a specific
This scientific and systematic approach is known as methodology in research. According to John W. Best, "methodology describes just what be done, how it will be done, what data will be needed, what data gathering devices will be employed, how sources of data will be selected, how the data will be analysed and conclusion reached." This means that methodology relates "modus operandi" to be adopted for undertaking research. Thus research is an art of scientific investigation.

In the present study the researcher has made use of various methods and techniques for collection and analysis of data which are given below:

(i) Study of Documents

At the initial stage, use of libraries was made for this research study, because most of the material on public sector enterprises and financial administration is available in published form which has helped in this endeavour. The background material and information for the purpose of the study was mainly obtained from various documents of HPSEB and HRTC, as well as, from documents of Himachal Pradesh Vidhan Sabha Secretariat.

Since the documentary sources have a great bearing in the field of research, especially for the collection of information, the documentation in the present study includes all the written material, books journals, articles, newspapers, reports, annual reports of the
concerned organisation, annual accounts statements, audit reports, files and so on. As such, all possible sources of documentation have been used for the data collection in the present study.

(ii) Application of Empirical Method

The important tools generally used for collection of primary data in a research study are questionnaires, schedule coupled with interview, discussion, informal dialogue and observations.

At this stage it is relevant to discuss briefly about the tools of investigation and various methods of primary data collection, applied by the researcher in this research work. In fact, method is an overall systematic effect to gather information and analyse it, whereas a tool is a specific instrument or means of investigation a particular aspect of the problem.

(iii) Questionnaire

A questionnaire (Appendix I) of pretested worth was designed to be the main instrument of primary data collection was divided into eight parts. The first part dealt with opinion on organisational philosophy, second with financial decision making, third with budgeting and control, fourth with audit.
fifth with social audit, sixth with working capital, seventh with legislative control and eighth with collecting additional information and suggestions from respondents, if they wanted to give. It is important to make a mention that information and the opinions which could not be obtained through other means of data collection were gathered through this instrument. The study of financial administration is a bit complex in nature, a common officer or official who has no experience in the field of finance and accounts cannot understand the problem of financial management easily, therefore the investigator has purposively supplied the questionnaire to an indentified and selective percentage of officers of Class-I and Class-II grade, holding administrative, managerial positions or posts of financial accountability in both these organisations under study.

(IV) Interviews

The investigator formulated an unstructured schedule for conducting series of interviews in both the organisations under study for gathering the remaining information. The only difficulty faced by the investigator was that the top administrator either gave no time for interview or evaded certain questions for one or the other reasons. However,
the officers dealing with finance and accounts had been quite cooperative and showed an interest in the questions put to them. It was also observed that in certain matters the administrators showed their ignorance, and whereas, the accounts officers gave detailed replies supported with convincing logics. Thus, the very purpose of the investigation was served through the information provided by these officers, who actually were dealing with finance and accounts.

(v) Observations

The investigator had generally developed friendly relations, with certain officers having scholarly spittle, because of frequent visits to both these organisations. To elicit the rest of the needed information, the researcher used to indulge in informal discussion with these officers and tried to divert the discussion to the points regarding which the information was needed. The investigator had been a little tactful at this stage to observe their opinion and existing reality of that matter and noted down the contents in their absence somewhere away from the scene of discussion.

(vi) Application of Comparative Method

Comparative method is based on comparison. This method is not very old in the field of science
It is of recent origin. A study to any field in
decrees involves comparison. The idea of something
beautiful or something ugly involves comparison. A
thing is called beautiful or ugly in comparison to the
other. Similarly, it is common thing to discuss
intellectual capacity or financial position in
comparison of others. In the field of scientific
study, this method is adopted to collect facts and
compare them for a particular purpose.

In the present study, the data collected
with this method from both the organisations has been
analysed and compared to each other and difference in
pattern, practice and system worked out on various
aspects of financial administration such as budgeting
procedure, control system, audit provision, working
capital position and trend. The impact of legislative
control over financial administration has also been
highlighted.

1.11.1 Tools of Data Analysis

There are many tools of analysing data such as
feeding the data to a computer and getting the results. This
is also known as computerization of data. In fact computer
is used to save the human labour. The other tools are
statistical and mathematical in nature in which various
types of statistical and mathematical formulae are used such as scaling techniques, content analysis, frequency and distribution scalogram etc. When the statistical and mathematical tools are used and when the data are fed to the computed, there is pro-coding of questions. Thus statistical tables are prepared on the basis of various mathematical formulae.

In the present study, the researcher has used the simple but the most fundamental tool of data analysis that is the hand tabulation. After systematically reorganising the data, tables were prepared and analysis drawn. The interpretation is given on the basis of the analysis of the table. So far as, the ratio analysis of working capital is concerned, different mathematical formulae were applied to work out the different ratios. At that stage use of calculator was made to workout these ratios and percentages.

1.11.2 Sample Design

The researcher has focussed attention on two public sector enterprises -- HPSEB and HRTC in order to study the pattern, system and trend of finance. The universe; HPSEB and HRTC for the purpose of purposive sampling was divided into HPSEB Head Office of Shimla and its circle offices and HRTC Head Office at Shimla and its Divisions; Shimla, Mandi, Dharamsala and Hamirpur.
Financial administration being a little complex subject especially for those officers or officials who have not dealt with it, it therefore, became difficult for them to give their right opinion on financial matters of their organisation. Keeping this factor in view, the researcher, in the present study has deliberately chosen to take samples from amongst the Class-I and Class-II officers holding key positions and posts of financial accountability of possessing drawing and disbursing powers.

**SAMPLE DESIGN**

<table>
<thead>
<tr>
<th>Organisation</th>
<th>Top Administrative Group</th>
<th>Finance and Accounts Officers</th>
<th>Drawing &amp; Disbursing Officers of Field Units</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total No. of Questionnaire</td>
<td>No. of Responses</td>
<td>Total No. of Responses</td>
</tr>
<tr>
<td></td>
<td>Distributed</td>
<td>Received</td>
<td>Distributed</td>
</tr>
<tr>
<td>HPSEB</td>
<td>7</td>
<td>3</td>
<td>15</td>
</tr>
<tr>
<td>HRTC</td>
<td>7</td>
<td>2</td>
<td>15</td>
</tr>
</tbody>
</table>
The total number of top administrators, i.e. members on the Board, Chief Engineer and Superintending Engineers in HPSEB has been twenty three, finance and accounts officers seventeen, field (i.e. drawing and disbursing officers) approximately fifty, out of which the researcher has randomly taken samples of seven, fifteen and ten respectively.

So far as HRTC is concerned, total number of top administrators i.e. members on the Board and general manager has been seven, finance and accounts officers about twenty, field officers (with drawing and disbursing powers) near about twenty five out of which the random sample has been taken from seven, fifteen and ten respectively.

1.13 Importance of the Study

In general term, an enterprise denotes a project to be undertaken or already under operation. It is of some importance to the undertaker involving some boldness and risk. It indeed, not always be, commercially viable though its efficient operation might call for the observance of commercial principles. Defined as such 'enterprises embrace both economic and social overhead as well as directly productive undertakings'. State Electricity Board and Road Transport Corporation are such public sector
enterprises which operate in the absence of proper evaluation criteria. Evolving proper and effective criteria for assessing public enterprise's performance has became a difficult task, mainly because of intermingling of the twin objectives-economic and social coupled with lack of clarity of objectives of the public sector enterprises. Government do not appear to be very serious in spelling out the specific economic and social considerations, on the basis of which public enterprises are to operate. Commercial performance of public enterprises may be evaluated in isolation from its social performance. But estimation of true social burden is not an easy task.

Whatever the objectives the public sector enterprises hold, the capital or the money involved in all these public sector enterprises which belong to the people and the tax payers, is always conscientiously invested to achieve the specific objectives, such as providing better services to the passenger giving employment, generation of hydro electric power for the upliftment of industrial sector, providing the supply of electricity on cheaper rates for domestic purpose. Management of finances play a pivotal role in regulation of all these activities, as well as, in justifying people's or tax payers's money, invested in these public sector enterprises. Therefore, the study of financial administration of these public sector enterprises becomes all the more important from routine financial management and
public accountability point of view. The present research work is a milestone in this direction.

HPSEB and HRTC are major public sector enterprises of paramount importance for socio-economic development of the state keeping in view the availability of immense hydroelectric potential and a suitable geographical setting. The functioning, growth and development of these public sector enterprises has a great importance for the overall development of the state, because these organisations function as an infrastructure in this hilly state. The road transport is the only major mode of passenger transport in this hilly state, where the air and railway services has lesser potential to expand.

Thus, the present research work carried out on the financial administration of these enterprises is more important from many point of view, in as much as, it covers philosophy behind the creation of public sector enterprises, study of public enterprise (growth and working) financial administration and financial management, working capital management and legislative control over public sector enterprises.

Therefore, the study will be useful as well as helpful to the student and researchers in the field of public administration, financial administration, management
and accounting. Besides this, the study will be of great use to the management of public sector enterprises, administrators, economists and planners.

1.14 Survey of Related Literature

Various studies have been conducted on public and private sector financial management. However, it is not possible to take up all such studies for review in the present study. An attempt has been made in the following context to undertake a survey of few relevant studies.

Financial Administration

Bhalla, G.S., (1968) has analysed financial administration of nationalised industries in United Kingdom and India. The study discussed the balance of compensation, various problem of initial and capital finance, investment planning, pricing policy, depreciation and reserve policy, targets and performance in the British and Indian public sector enterprises.

Baisya, K.N., (1986) in his study covers varied aspects of financial administration, including the preparation of budget, fiscal legislation, reports of committees on estimates as well as reports of the Public Accounts Committee. The study suggests that a budgetary committee should be set up to examine budget proposal in detail and that audit objections should be dealt with by the government within a reasonable time span.
Mathur, B.L., (1987) has made an attempt to identify and analyse specific problems relating to financial management in public sector enterprises. The chapters in this book are authored by eminent management experts and covers a wide range of topics like capital structure, cash management inventory management, working capital management and pricing policy.

Shina, R.K., (1983) points out that inspite of its phenomenal growth and achievements, the public sector has come in for sharp criticism. The study has pointed out that the public sector has primarily been a losing concern resulting in heavy losses to the exchequer. Other drawbacks are lack of autonomy for manager's adoption of bureaucratic procedures, overstaffing, overstocking in inventories, unproductive expenditure and uneconomic pricing. Attracted by these problems the author wrote series of articles.

Ghosh and Kumar (1991) draws on financial management across a wide spectrum, budgeting allocation, cash flow, production finances, cost reduction, zero base budgeting and accounting in public enterprises. Audit viability of financial and several important areas are discussed in detail.

Batra and Jain,(ed.) (1988) in their study has covered the conceptual, theoretical, organisational, legal and operational issues in public enterprises. The study focoses on the autonomy and the accountability of public
sector enterprises. In the study there is a good deal of discussion about the interface between government and Legislative accountability which really means accountability to the people who pay for these enterprises and for whom they are supposedly set up. There are articles dealing with the Indian Railways, LTC of India, the Industrial Development Banks, the Backward class corporation etc. Thus, the editors have made a comprehensive view of the nature and working of public enterprises. The volume reveals that the situation in the states is indeed distressing from the viewpoint of both financial management and results.

Public Enterprises

Shrivastava, M.P., (1987) in his study has covered a wide area and various facts of operation of Public enterprises system. Various aspects such as accountability, the concept, the norms and the methodology for enforcing accountability has been discussed. He has made a comparative study of principles and practices of enforcing accountability in public undertakings in some developing and developed countries.

Mishra, S. Ravishankar, (1985) has made an attempt to identify and discuss specific current problems of public enterprises. A broad framework is provided for improving the overall performance of public enterprises. An insight is given into the areas of corporate planning, technology and managerial productivity, human resources management and a few issues of public enterprises abroad.
Parkash, Jagdish, (1980)\textsuperscript{37} has discussed the need for proper and effective control over public enterprises by various authorities and committees. The study deals with the ministerial control, parliamentary control and control by audit. The success as well as failures depend to large extent upon how best they have controlled, the study reveals.

Jain, S.C., (1986)\textsuperscript{38} studies automobile industry in India for the period 1972-73 to 1979-80 and presented the problem of the industry in a lucid manner. The study discussed the financial strength, profitability, working capital position in the industry. The study revealed that the capital structure of automobile industry in India has been highly geared up, but the cost of goods sold consumed more than 90 per cent of the sales. These two factors have adversely affected its profitability on one hand and the financial health on the other.

In an another similar study Gupta, L.C., (1983)\textsuperscript{39} believes that corporate sickness has plagued industry overall the world and certainly in India. In his study he has allied a scientific approach as against existing conventions and rule of thumb method. He examined, both statistically and logically a wide range of ratios to determine the best set not only for identifying potentially sick organisations but also the more general purpose of ordering organisations according to degree of financial health. The core of the study deals with the task of
empirically testing a wide variety of profitability and balance sheet ratio.

Yadev Ram Avatar, (1986)\textsuperscript{40} believes that he can present in this study a more scientific approach in financial ratio analysis in predicting the health of a company and its chances of survival or failure. A wide range of financial ratios have been empirically tested and a multi-ratio model has been developed which can be useful in monitoring sickness by managers and other executive staff of industrial units, banks, financial institutions and state level enterprises. The core of the study deals with the empirically testing of wide variety of financial ratios on univariate and as well as multivariate basis.

**Working Capital**

Verma, Harbans, Lal, (1989)\textsuperscript{41} has examined and evaluated the management of working capital as a factor responsible for poor performance in Indian industry with a special reference to Iron and Steel Industry. The study has pointed out that the private sector in the industry has an edge over the public sector as far as management of working capital goes. The problem of underutilisation of capacity in the industry, which is more acute in public sector units, can be tackled to a great extent by improving the performance of these units in the management of working capital. This will also ease the overall financial position of the units and help realise the dreams of planners, the study suggested.
Agarwal, N.K., (1983)\(^{42}\) has examined the industry practice of working capital management and has tried to evaluate management performance in this regard. Since the efficiency of working capital management is determined by the efficient administration of its various components; cash, accounts receivable and inventory, the study attempts to determine the efficient management of each component.

Bardia, S.C., (1988)\(^{43}\) study made a comprehensive treatment of each component of working capital viz; inventory, receivables and cash. The pattern of financing working capital is also discussed in detail. It also offers suggestions for improving working capital management in order to enable a concern to reduce its dependence upon borrowing.

Panda and Satapathy, (1988)\(^{44}\) studied the working capital problem private enterprises in general and the selected cement industry in particular. It encompasses the problem of adequacy, the choice, sources used and problems associated in raising working capital. The method of financing and managing the net working capital needs of the sample cement companies is made by adopting certain financial tools. The study also throws light on the deviation from overall trend of companies individually.

Financial Structure

Sharmam R.P., (1988)\(^{45}\) has analysed the financial structure of all the important automobile companies in private sector in India and has used extensively the
statistical techniques. The study has provided an insight into the corporate financial structure which play an important role in financial planning of a concern. The study described how to optimize financial strength as well as profitability.

Ali, Khurshid, (1985)\(^4\) in his study highlights the financial management techniques followed by public sector undertakings of Jammu and Kashmir. He has made an intensive study of the problems experienced by the undertakings, financial control, financial planning techniques adopted by the enterprises have been analysed and a critical view of surplus generation and pricing policy of enterprises has been urged. The operational efficiency of the state public sector undertakings has been dealt with special reference to the Jammu and Kashmir State Industrial Development Corporation Ltd. Finally, various suggestions have been put forth to be followed by the public sector undertakings of the State so that efficiency is improved by operating them in consonance with the sound principles of financial management.

Shankaraiah, A., (1983)\(^5\) has studied the budgeting aspect of State undertakings of Andhra Pradesh. According to his study the most of state undertakings except those which are in the category of promotional developmental and trade activities, are incurring losses. The undertakings which incur losses belong to all the four types of public undertakings namely; government companies and welfare
cooperatives, which proves that the form of organisation has nothing to do with operating losses. The study reveals that the losses and their increase from year to year has shown that there is a lack of profit planning these public undertakings.

Sharma, M.L., (1986)⁴⁸ has evaluated and explained the important aspects of financial appraisal of State Agro Industries Corporations in the northern zone of India. In this study he has explained the concept of financial appraisal, financial statements, evaluation of state agro industries corporations, objectives and their profitability, sales, working capital management and utilisation of fixed assets. In his study the author made a summary of conclusion and offered suggestions for the improvement of the working of these corporations.

Choyal, B.R. (1986)⁴⁹ has made an attempt to make a comparative appraisal of financial performance of selected state warehousing corporations. The study suggests that if the corporations are engaged to achieve the objectives for which they have been set up, they must grow into a viable unit have a sound financial base to expand their field to operation and also to provide services to their customers, must have adequate working capital and their turnover should be high in the coming years, so that they must cater to needs of their clients in a better manner.

Munshi, K.G., (1990)⁵⁰ has analysed the financial and structural aspects of Urban cooperative Banks. An attempt
has been made to screen and evaluate their performance and to gauge their potentials, making use of basic concepts of financial management and quantitative techniques. He suggested better working of Urban Banks from the viewpoint of yielding good financial structure, improving productivity, managing the flow of funds and endeavour to grow in terms of growth strategy.

Rao, Y. Gouthama, (1987)\textsuperscript{51} has studied financial management of Vishakhapatnam Port. The study attempts to compare the situation in Vishakhapatnam with other selected major ports viz; Bombay, Madras and Mormugao. The study was designed to deal with certain specific objectives, viz; cost control, revenue maximisation, assessment of the sources, application of funds, appraisal of operational performance and profitability with particular emphasis on continuous deficits in the recent years. The study reveals that Vishakhapatnam Port has passed through a precarious financial position with deficits reaching menacing proportions. An attempt has been made to identify the reasons for the unhappy trend and suggestions have been made to overcome the problems.

Panda Snehalata (1989)\textsuperscript{52} has conducted a study on the working of Upper Kolab Multipurpose Project, Kolabnagar (Orissa) and made a micro analysis of personnel and financial administration-vertical and horizontal relation among staff, sources of finance, expenditure, financial
control over administration has been extensively dealt with. Government has time bound programmes for projects with minimum of expenditure. The check on expenditure exercised by the financial staff on the administration and technical staff often breeds mutual ill will. Delay is the common charge against the financial staff by the administrative personnel, the study reveals.

The foregoing review of the various studies besides giving us an idea of the area covered so far also points out the unexplored area in the field. Very few studies are available on Comparative financial administration and in the case of Himachal Pradesh, the researcher has not come across any study of this kind so far. The present study has therefore been undertaken to fill this vital gap.
NOTES AND REFERENCES


3. Ibid., p., 957.


8. Ibid.,


19. Ibid.,


29. G.S. Bhalla, Financial Administration of Nationalised Industries in the United Kingdom and India, Meenakshi


