CHAPTER I
INTRODUCTION

There is hardly any country today in which the Government is not engaged actively and directly in the setting up and management of economic and industrial enterprise. These range from transport system – railways, road, air, shipping enterprises and water ways, the generation of power and its distribution, irrigation works with vast network, the supply of water for industrial and domestic consumption, the mining and processing of coal, iron and other minerals, indeed almost every conceivable sort of industrial and commercial activity and production of goods or services. Public sector enterprises occupy a vital position in the national economy of almost all countries in the world irrespective of their political orientation. However, the ultimate causes of the emergence of public sector enterprises vary from one country to another. In western countries it was the unworkability of the laissez-faire policy and wide spread social tension created by capitalism that resulted in the emergence of public sector enterprises. The classical economic view of laissez faire aimed at full employment, full investment and maximum wealth. However, in actual practice, under employment, exploitation, inequality in the distribution of wealth, poverty and distress across a section of society were the results. At this stage, state intervention was the only remedy possible. Public enterprises were the result of ideological commitment under communism. Public enterprises were created in most of the third world countries in the post World War II period as a matter of economic necessity rather than any ideological commitment.
Developing countries which attained independence after World War II, were under strong pressure to bring about rapid economic progress. These countries lacked the necessary conditions under which private enterprises could be expected to attain rapid economic progress. The economies of such countries were characterised by low level of savings and investment, lack of technical, managerial and entrepreneurial talents, under developed economic infrastructure and basic industries and non existence of capital market. Such being the circumstances, the Government of these countries were left with no alternative but to participate directly in the economic process, which was mainly promotional and entrepreneurial in nature.

In India, the growth of public enterprises has been a steady process, after a rather slow beginning. The middle of the nineteenth century saw the beginning of the Post and Telegraphs Department in India. The history of public enterprises in India since independence may be traced through the several industrial policy statements made by the Government.

The Industrial Policy Resolution, 1948 aimed at greater production and the proper distribution of wealth so produced in order to establish a society wherein justice and equality of opportunity would prevail and envisaged a greater role for the state in the economic development of the country. The development of Public Sector Undertakings was accelerated through the Five Year Plans and the plans envisaged the public sector enterprises as milestones in the progress of the economy.

The failures of socialistic economies in many countries of the world have paved the way for globalization. The globalization makes an onerous responsibility on the public sector enterprises to take decisions which have far reaching
consequences. Globalization provides a choice and inefficient operations can be driven out. Globalization encourages competition. It is this competition to earn consumer support that results in a continuous global search for what the consumer needs and an ongoing programme on how to create and deliver the best, globalization helps to synergize the role of each country, with there being only winners and no losers. Globalization nutures a borderless world where there is free exchange of money, ideas and expertise, fostering partnerships and alliances to serve the best. The public sector enterprises can move towards globalization by different strategies such as developing exports, strategic alliance, acquisitions and mergers.

The intent of globalization is efficiency improvement and market optimisation taking advantage of the opportunities of the global environment. So in many cases, the public sector enterprises have to globalize to survive and grow in the emerging competitive environment. Now funds are available from within and from outside on account of globalization and also on account of the widened capital and money market.

The Public Sector Enterprises in Kerala need upgradation of technology and improved production to compete with multinational companies and private enterprises. For it the procurement of sufficient amount of funds and its efficient management is urgently needed in the wake of liberalization.

Review of Literature

Public sector enterprises play a vital role in the economy of Kerala. Fund Management of public enterprises is important for its effective functioning. Keeping this in mind, the various studies made in the past relating to public sector
undertakings are reviewed. This includes scholarly research studies, articles, books, journals, seminar reports and official publications of the Government.

V. Gangadharan Pillai (1980)\(^1\) conducted a study on Kerala State Road Transport Corporation, Kerala State Electricity Board, Trivandrum Rubber works and Kerala State Industrial Development Corporation, to analyse their managerial setup and administrative problems. It is found that inefficiency of management, lack of finance, defective recruitment system, political interference and indiscipline of the workers were the important factors responsible for the unhealthy performance of most of the public enterprises in Kerala.

D.P. Nayar (1980)\(^2\) made a detailed analysis of the working of nine state government undertakings in Kerala. To make the study more concrete, the performance of one of the enterprises was singled out for detailed analysis and it was compared with similar private enterprises. It is concluded that there was underutilization of all factors of production which obviously implied a defect in the economic organization, indicative of inefficiency.

Bahul H. Dholakia (1980)\(^3\) in the book entitled, “Changing Efficiency of Public Enterprise”, concludes that in a country like India, it is the index of the factor productivity that represents the most appropriate criterion for evaluating the overall performance of public enterprises, in relation to that of private enterprises.

Agrawal (1980)\(^4\) through the paper “Sickness in Indian Industry, Industrial Sickness and Revival in India” has tried to expose the causes of industrial sickness and magnitude of sickness. The problems faced by the sick units differ from industry to industry and unit to unit. There has been considerable restructuring of the
economy which has eroded the viability of quite a few industries. That is, in some aspects, a reflection of the technological changes which has been taking place incessantly. Government’s policies can also be held responsible for aggravating the sickness especially in Public Sector Undertakings. Above all, sickness can be attributed to the mismanagement of the affairs of the respective corporate.

P.R. Wilson (1981)\(^5\) conducted a study on social planning and control in public sector undertakings in Kerala. The study evaluated the existing system of financial planning and control and its role in reducing losses and increasing profits. It is highlighted that majority of state owned undertakings are being controlled directly or indirectly by Board of Directors constituted out of bureaucrats in the state. Usually they are given charge of a wide range of undertakings with considerably insignificant tenures. This major drawback has resulted into inadequate attention being given to these units with long term vision and insight as to planning and control.

Bagchi. K. Amiya (1982)\(^6\) has evaluated the performance of public enterprises during the period 1976-1986. It is suggested in the study that the public enterprises should implement different recommendations made by different committees for the betterment of their efficiency. It acknowledged the significance of those public enterprises which have provided more employment opportunities and contribution to the net domestic savings in India.

Sahay. S.N (1982)\(^7\) conducted a study on the Financial Management of State Level Enterprises in Bihar. Financial management variables such as capitalization, capital structure and sources of long term funds were analyzed, in respect of six
sample units from the state. The state level undertakings are destined to function in an era where adequate level budgetary support is lacking. The exchequers found it difficult to fund majority of these entities looking forward to state support for financing their capacity expansion as well as modernization plan. This has prompted these units to land up before the commercial and other financial institution for meeting their fund requirement. Here again the entities are required to obtain government guarantees to support their credit worthiness, otherwise rated below par by the financing institution, and huge guarantee commission became payable to the respective state Governments. On the other hand, the above referred units which were on the second phase of their development ladder, found it really difficult to earn a reasonable return so that the incremental cost of debt could be met. This has to be seen at the backdrop of the first phase of their establishment which was funded directly by state Governments as equity participation, for which no guarantee commission and even a dividend payout was neither contemplated nor duly met by majority of these undertakings.

Shankaraiah (1983) in “Financial Management of Andhra Pradesh Public Enterprises” made an attempt to evaluate the financial management practices followed by public enterprises in Andhra Pradesh. In this study it is illustrated that, more than production, marketing and personnel managements, financial management played a crucial role in determining the fortunes of the public sector corporation, since these entities are operating in high potential industry segments.

Sahey.S.S (1984) in his study “Financial Management of Bihar State Enterprises”, hypothesized that the poor financial performance of these state enterprises was related to their poor financial management. This is substantiated by
analyzing the capitalization and capital structure and source of long term funds of six public sector enterprises.

Mary Joseph. T. (1984) in the study “The Economics of Chemical Industry in Kerala” observes that large increase in capital intensity has not resulted in any substantial increase in capital productivity. In fact, in the case of fertilizers and pesticides and miscellaneous group of chemical companies, capital productivity showed a decline.

Rajendra Prabhu (1984) in his work “How Sick Units Regain Health” has observed that, finding a suitable manager is perhaps the most difficult problem of sick units particularly where it is found that sickness has been attributed to bad management and the management’s integrity and honesty has been doubtful.

Dutt (1980), Chakravarthy (1983), Desai (1980), Pillai (1984) and Iyer (1984) have given a list of steps that need to be taken to rehabilitate the sick units and to solve their respective management problem.

Always there existed the interest to isolate the causes behind the slow progress of PSUs in Kerala. Tharakan and Thomas Issac (1984) in the working paper “An Enquiry into the Historical Roots of Industrial backwardness in Kerala” have identified five crucial indicators as to the backwardness of industrial development in Kerala. They are Gross Value Output (GVO), Value Added (VA), Number of Factories (NOF), Number of Employees (NOE) and Fixed Capital (FC). They found that the position of Kerala in the industrial map of the country gradually declined in terms of all the indicators mentioned above. Over time Kerala had an
impressive growth in terms of its rank of value added. However, employment and fixed capital was the lowest among South Indian States.

Roy (1985) discussed the problem of control over Public Sector Undertakings in Orissa with particular reference to the problems of personnel in his study on State Public Sector Enterprises in India. After stating the rationale underlying such control, the researcher referred to different models of control. The principal among them are legislative control, government control and the control wielded through the bureaucracy. Lack of technical knowledge and its inadequacy tempted the top management of these units to make haphazard and ineffective measures while designing control tooth in the areas of manufacturing and processing which led to their poor financial performance.

“A study of State Government Undertakings” by Khan and Arora (1985) contains eleven papers dealing with public enterprises in eight states. These papers focus on some major aspects connected with the administrative mechanisms prevailing in PSUs available in various states especially in the areas of financial management which lead to the poor performance of state level public enterprises across the country.


Choyal. B.R (1986) a study on the Financial Management of the State Ware Housing Corporation in Haryana, Madhya Pradesh, Andra Pradesh and Orissa
analyzed the aspects of the financial structure, working capital, fixed assets investments, profitability and funds flow.

K.K. Subramoniym and Mohanan Pillai (1986) in their study on “Performance of State Sector Enterprises in Kerala” observed that the wages in relation to productivity had been relatively lower in most industries in Kerala.

In the study titled “Has Public Sector Lived up to our Expectation?” Mehta (1987) has concluded that because of the interference from different quarters, from project approval to implementation our public enterprises could not run profitably. It also leads to lack of accountability.

Hemalatha Rao (1987) conducted a study on the Financial Performance of Karnataka Electricity Board and pointed out that defective planning, high cost of man power, excessive dependence on loan, wasteful energy consumption etc, were some of the problems faced by the Board.

G. Venkitachalam (1988) in the book entitled “Financing of Public Enterprises in India”, concluded that the public enterprises were increasingly more dependent upon external sources of financing than on internal ones. It is also concluded that the poor profit performance of central government public enterprises was responsible for the poor generation of internal funds.

In the one week course on Public Enterprises Management for IAS Officers (4-9 April 1988), the study team evaluated the performance of the state level public enterprises in Kerala. They found that the government should not have gone to float a large number of organizations, mostly manufacturing concerns, where it could
achieve the purpose by formulating a policy to promote private investment in the field.

In a study entitled, “The Public Sector Enterprises Problem in India” S.L.N Sinha (1988)\textsuperscript{27} brings out that a vast number of public sector industrial and commercial undertakings in India instead of contributing to dynamic growth of the economy have accounted for tremendous wastage of physical and human assets and they are a great burden on the exchequers which is already in poor shape an account of prolonged fiscal mismanagement.

Nataraja Iyer (1988)\textsuperscript{28} discloses that the Public Sector units in Kerala earned a modest amount of gross profit, but such gross profits are insufficient to cover the interest payments and depreciation charges and the study also highlights that the productivity of capital and labour in the public sector enterprises in Kerala is much lower than that in private sector.

In a book, on “Performance and Development of State - Level Public Enterprises in India”, Shanker, Nandagopal and Mishra (1989)\textsuperscript{29} observe that a three tier system should be adopted to improve the performance of state-level public enterprises in India. In the short term, these enterprises would do well to initiate measures with regard to cost control and cost reduction. Medium term measures would include change of the organization set up of the state level public enterprises. Long term measures would include the preparation of corporate plan, strengthening of “top management”, professionalisation of managements etc.

In a study on Performance and Development of State Level Public Enterprises in Kerala, R. Narayan (1989)\textsuperscript{30} concluded that the low profitability of
State level public enterprises was due to labour problems and management failure, lack of corporate culture, poor marketing approaches, financial difficulties in the form of bearing interest payment on debt, and by and large, lack of professionalism in management.

In the study “Overview of Performance of Public Sector Enterprises of the Government of Gujarat” M.B.G.Tilak (1989) concluded that general measures like professionalisation of the board of management, observation of scientific principles of management, strict vigil over the public enterprises performance by nodal agencies like the Bureau of Public Enterprises would pave the way for the desired goal of public enterprises, viz, reaching the commanding heights of the economy.

The overall economic climate prevailing in the country and especially in the states has proved to be a vital influencing factor in determining the fate of an enterprise. Prasad and Rao (1989) conducted a study on the Financial Management of Public Enterprises in the Southern States, taking two enterprises each from Kerala, Tamil Nadu, Karnataka and Andhra Pradesh. Marked difference can be identified in the industrial climates prevailing in Kerala and Karnataka with that in Tamil Nadu and Andhra Pradesh. This has eventually helped the PSUs in Tamil Nadu and Andhra Pradesh to overtake their counterparts in the other states by miles.

A study on “Financial Management of State Level Enterprises in Andhra Pradesh by Krishnanachary (1990) covered various financial management areas such as resource mobilization, investment management and working capital management.
Nair P.P (1990)\textsuperscript{34} made a detailed analysis of the working of nine state
government undertakings in Kerala and concluded that there was underutilization of
all factors of production.

The study conducted by P. Mohanan Pillai (1990)\textsuperscript{35} “The Performance of
State Sector Enterprises in Kerala”, concluded that among the profit making firm,
the performance of the chemical industry appears to be relatively better. In the
electrical and engineering industries, average material productivity registered a
negative growth rate. A steeper decline was also registered in the case of engineering
industry.

Bader. A. lqbal (1990)\textsuperscript{36} in a study on “Indian Public Sector in 90s” pointed
out that the basic issues with which Indian Public Sector Enterprises have been
confronting, are accountability, autonomy, protection of consumer interest, operation
of financial controls, proper and effective management succession, maintenance of
industrial harmony, professionalism of management and the role of civil servants.

The study conducted by Beena P.L (1991)\textsuperscript{37} regarding the performance of
manufacturing enterprises in the public and private sectors in Kerala, has analyzed
the trends in capacity utilization, trends in their partial and total factor productivity
growth and their financial performance The study concluded that state level public
enterprises as a whole put forth relatively better performance than the private sector
with respect to several physical performance indicators.

In the study, “Working of State Level Manufacturing Public Enterprises
Promise and Performance” Shankar, Nandagopal and Misra (1991)\textsuperscript{38} concluded that
the capacity utilization of state level public sector manufacturing enterprises are very
low by all standards. It fluctuated between 25 per cent and 50 per cent in most of the states.

Satya Raju (1991)\(^3\) stated that the poor incentives for management and weak commitment to profitability as opposed to wider social goals are some of the chronic reasons for poor performance of public sector enterprises in India.

Bimal Jalan (1992)\(^{40}\) in a study, “The Indian Economy-Problems and Prospects” concluded that the performance of public enterprises has been satisfactory in respect of the rate of total investment but the economic performance has not been upto the expectation.

Antony. M.T (1992)\(^{41}\) in the study, “Efficiency in Central Public Sector Enterprises in Kerala” concludes with the statement that the efficiency of Central Public Sector Enterprises in Kerala measured by the parameters - capacity utilization, profitability and productivity - has been showing relatively better performance than the CPSES in India as a whole. It is further stated that power shortage and labour problems are the two important problems that hindered the still better performance of the PSES in Kerala.

Ushakumary (1992)\(^{42}\) in the study on “Linkages of Electrical Machinery Industry in Kerala”, has concluded that the electrical machinery industry in Kerala had failed to generate adequate forward and backward linkages with the local economy. This lack of linkage has developed certain structural bottle necks in the industrialization in the state leading to the dismal performance of the electrical equipment manufacturing sector. It is also emphasized that the vertical and
horizontal integration of related undertakings established under the public sector can bring about hidden synergies.

Ashok Kumar Sinha (1993)\textsuperscript{43} in a study on “Trade Union and Productivity in Iron and Steel Industry in India”, disclosed that trade union activities affect labour productivity to a great extent. Satisfied labour is an asset to the undertaking, especially in terms of productivity whereas grudging and agitating labour force not only affects the performance of the undertaking adversely but also brings down national productivity.

B.A. Prakash (1994)\textsuperscript{44} disclosed that the sustained losses incurred by the industrial undertakings run by state Government discourage initiation of any new undertaking. In spite of the efforts of the state Govt, private investors are reluctant to start large or medium industrial units. This may be attributed to higher cost of production arising out of higher input cost and labour cost compared to other states.

T.L.N Swamy (1994)\textsuperscript{45} concluded that the high degree of capital investment in respect of public sector enterprises seems to have failed to generate employment opportunities and value addition considerably in comparison to private sector. It is also pointed out that private sector enterprises appear to be capable of generating more employment and value addition with low capital base compared to the public sector enterprises in India.

Ravi Varma Raja P.R. (1994)\textsuperscript{46} in a study on “Financial Management of Public Enterprises in Kerala” pointed out that the net margin and operating margin are not in conformity with the functional parameters like capacity utilization and
turn over and financial parameter current ratio. It is also stated that a change of these variables will not lead to a corresponding change in net profit or operating profit values.

Atmanand (1994)\textsuperscript{47} in a study on “Productivity and Management of State Level Public Enterprises in India”, states that manpower is in excess of standard requirements. As a result, labour productivity has been low in several undertakings as compared with similar industries, in the private sector units. Effective labour utilization is generally found to be in the range of 50 per cent of the available time.

Nataraja Iyer (1995)\textsuperscript{48} in a study on “An Evaluation of the Financial Performance of Public Sector Enterprises in Kerala”, disclosed that the performance of the reserve to paid up capital ratio is quite unsatisfactory. The public sector units do not create positive reserves to paidup capital. Reserves have turned into accumulated losses. The position becomes serious especially in the case of industrial units. In the case of industrial units, these accumulated losses have exceeded even to their paid up capital.

Syamala (1996)\textsuperscript{49} studied the Inventory Management techniques followed by Kerala Electrical and Allied Engineering Company and their impact on the profitability performances in the thesis titled, “A study of Inventory Management in Kerala Electrical and Allied Engineering Co. Ltd”. In the study it is observed that majority of the PSUs are not employing computer aided design for production support, inventory management, quality control and cost accounting. The study highlights the importance of imbibing professional management practices supported by sound management information system in PSUs in order to build competitive
advantage to match its private sector counterparts. But it is not within the means of PSUs to maintain the so called professional competence with such enterprises, which can ill afford the hectic pay packages prevailing in the respective professional-job markets.

Varghese Mathew (1997)\textsuperscript{50} in a study on “Performance Evaluation of State Public Enterprises in the Manufacturing Sector of Kerala” discloses that majority of public enterprises are dealt with massive work force working with outdated plant and machinery in a climate of mismanagement.

C.D. Sandana (1998)\textsuperscript{51} concluded that absence of proper accountability, security of jobs, overstaffing, lack of competitive culture, absence of motivation, interference from the bureaucrats and political leaders are some of the causes of non performance of public enterprises in India.

Manoharan Nair K. (1998)\textsuperscript{52} pointed out that productivity linked wages in the industrial sector of Kerala is of great relevance. The task ahead is the creation of awareness among the employees and trade union about the need for higher productivity for existence and survival.

The study of Industries Dept. of the Govt. of Kerala (1998)\textsuperscript{53} stated that the turnover per employee is the lowest in traditional sector followed by ceramics and wood based sector. The net profit per employee in textiles, engineering, electronics and electrical sectors needs to be improved. One major factor hindering the public sector is the lack of professionalism and adequate training. The study again states that compared with CPSES which have larger presence, visibility, and better budgets which enable them to attract and retain professional management, state level public
enterprises are not able to tap competent professionals at the middle and top management levels. A system for rewarding good performance and disincentives / penal action for short comings is by and large absent.

P. Rameshan (1998) in a study on, “Employment Reduction Under Reforms and the productivity of sick Public Sector Enterprises - A Learning Curve Analysis”, concluded that one of the most important factors responsible for the poor performance and low productivity of central public sector enterprises during the pre-reform years was the existence of a large excess work force in the public sector enterprises.

Aravind Panday (1999) in the study, pointed out that the financial rate of return of public sector enterprises has been most disturbing. The low rate of return on the capital invested had important implication both for short term macro management as well as for accelerating industrial growth.

In a study, R.K. Mishra (2001) pointed out that, the sources side of the balance sheet of public enterprises reveal that these entities depend more on external sources, whereas their counter parts in the private sector have tendency to depend more on internal resources. Moreover the use of current liabilities as a source of finance is less in public enterprises as compared to the enterprises in the private sector. The cost of capital is at the back of every move in a private sector enterprise, whereas in public enterprises it does not hold the position of that strength.

Anil Prasad. V (2001) in a study on “Financial Management of Public Sector Undertakings in Kerala” highlighted the strengths and weaknesses of the financial management policies and practices being followed by the state owned
enterprises. Many of the sophisticated financial management tools found no place for application in these units. Even the most appropriate ones that can be associated with the given situation were not seen being followed due to lack of vision and imagination. Many of the financial management tools available in the armory of modern financial management discipline even provide forewarnings for the imminent and potential down trend in performances as to marketing, production and financial segments.

Geevargheese (2002)\textsuperscript{58} while conducting a study “Financial Strengths Profitability and Productivity of Public Sector Chemical Enterprises in Kerala” opined that the absence of proper market research and updating towards cost effective technology have resulted in the below par performance of Public Sector Chemical Units under the State Sector. Public Sector undertakings, posed with meeting simultaneously the twin objectives of social commitment and competing with other commercial operators, are being put under tremendous pressure. They are often required to choose a middle path, forced to compromise on the best commercial practices otherwise available to a private sector player. This has to be weighed in the context that Public Sector units of the present day are destined to operate neither with any budgetary support nor with the usual concessions and subsidies provided to them by the government as a reward for their social commitment. This has got immense relevance in the case of PSUs operating in industries where fierce competition, import duty cuts and dumping menace are in the superlative.

Deva Kumar P.S (2008)\textsuperscript{59} undertook a research study on “Financial Performance of Selected Public Sector Industrial Undertakings Under Revival in
Kerala”. The study identified the causes leading to the sickness and the extent to which the causes were addressed by operating agencies through BIFR and examined the improvement in performance level of these undertakings in financial terms, once the net worth becomes positive.

**Statement of the Problem**

The industrial sector in Kerala consists mainly of traditional industries and also few modern industries. Besides that there are new emerging areas like Information Technology (IT), IT Enabled Services (ITES) and bio-technology. Since the bulk of industrial workers in the state are employed in traditional industries, top priority has to be given to revive, modernize and strengthen them to face the increasingly competitive market conditions. At the same time considering the large stock of educated unemployed, the development of modern industries has also to be encouraged. There are certain constraints such as high land price, nonavailability of land, lack of adequate infrastructure (roads and power) and the problem of environmental activist and bureaucratic delay in sanctioning of projects which prevent the new generation entrepreneurs to start business ventures in Kerala. Now in this reform era the government of Kerala is trying to remove these constraints to make Kerala an investor friendly state. The PSEs in Kerala are performing with a trend of fluctuation in profit. During the period under review most of the loss making PSUs have achieved a turnaround due to implementation of timely revival packages, one time settlement of liabilities, infusion of professional management and a fairly high degree of autonomy in decisions making at the corporate level. Basically the back bone of modern industry in Kerala was laid
down by public sector enterprises but its performance are not up to the mark and has shown a trend of fluctuation.

In spite of the state support and the initiatives taken to strengthen and improve the performance of the PSEs they are facing some major threats. The global financial meltdown has badly hit both domestic demand and export demand. The prices of many products have declined. Domestic competition has become tougher and PSEs find it difficult to compete with private sector units. Some PSEs are still struggling with obsolete technology that pushes productivity to unimaginably low levels. All these calls for improvement in productivity and good corporate governance which ultimately calls for inputing finance and proper management of funds in the liberalized era, hence the present study is on the financial management of PSUs under liberalization

**Significance of the Study**

Public Sector Enterprises in Kerala are among the largest employment providers in the organised sector. In spite of the global financial recession, the Public Sector Undertakings, administered by the Industries Department of the Government of Kerala, have registered excellent growth and commendable performances in certain years but reverse circumstances in other years and they are passing with a fluctuating trend. Now the industries of all type passes through an environment in which there are no trade barriers and the economy is open to all where in free entry and exit are made possible. Whether the existing business are making use of the international sources of funds or any change in the financial management practices is important in the liberalized era.
Objectives of the Study

The following are the specific objectives of the present study:

1) To analyse the capital structure decisions of selected PSEs in Kerala during the liberalization period.

2) To evaluate the investment decisions of selected PSEs in Kerala during the liberalization period.

3) To evaluate the long term and short term solvency of selected PSEs in Kerala during the liberalization period.

4) To study the operating performance of PSEs in Kerala during the liberalization period.

5) To examine the perception of managers on the financial management practices of PSEs in Kerala during the liberalization period.

Hypotheses of the Study

1) Public Sector Enterprises failed to attract ownership funds during liberalization period.

2) There exists disparity in fund invested and the capital employed in Public Sector Enterprises in Kerala during liberalization period.

3) During the liberalization era, the Public Sector Enterprises failed to attract debt funds into the business.
4) The Public Sector Enterprises in Kerala failed to manage short term funds during the liberalization period.

5) Lack of adequate return on investment hinders the development of Public Sector Enterprises in Kerala.

6) Profit earned by majority of the Public Sector Enterprises is meager.

Variables Used for the study

For analyzing the financial performance such as solvency and profitability the variables considered by Bureau of Public Enterprises are analyzed, which include Net worth, Capital Invested, Capital Employed, Working Capital, Debt Equity Ratio, Current Ratio, Receivable to sales (in months), Stock of finished goods to sales (in months), Stock of raw materials to consumption (in months), Consumption to sales (%), Net Profit to sales (%) and Return on Investment (%).

For knowing the behavioural aspects relating to financial management practices of public sector enterprises the main variables used are Profitability (19 sub variables), Sales Turnover (18 sub variables), Management of Fund (27 sub variables), Operating Costs and other costs (23 sub variables) and External Factors (24 sub variables).

Scope of study

The present study is confined to the evaluation of the financial performance of the Public Sector Enterprises in Kerala under liberalization on the one hand and analysis of the opinion of the managers on the financial management practices of PSEs in Kerala during the period of liberalization on the other.
Research Design

Methodology

The method of study is an evaluative one and it examines the Solvency, Profitability and Return on Investment and this is made based on secondary data. In addition, an opinion survey method is also carried out to know the perception of managers on the financial management practices of PSEs during the liberalization period.

Collection of Data

Both secondary and primary data have been used for the study. Pertinent reports of research studies by the Universities, Government State Planning Board and the Bureau of the Public Enterprises have also been utilized.

Secondary Data

The Secondary data are collected from the Bureau of Public Enterprises and are used for the analysis of solvency, profitability and return on investment of the public sector enterprises selected for the study.

Primary data

Primary data has been collected by using a structured interview schedule developed for this purpose. The Stratified Random Sampling Technique is used for the collection of primary data from the managers (180 respondents). The process of selection is described as under:
The Population of the sample

There are 144 Public Enterprises in Kerala under different Sectors, of which 18 units are selected from various sectors by using Stratified Random Sampling method. The method of selection of units is 2 each from Development and Infrastructure Agencies, Chemical Industries, Engineering, Plantation and Agro based Units, Traditional Industries and Welfare Agencies and one each from Ceramics and Refractories, Electrical equipments, Electronics, Textiles, Trading Units and Public Utilities.

From these selected 18 units, 180 managers are selected by using Stratified Random Sampling Technique. The selection is made by taking 5 respondents each from top officials (90 respondents) and 3 respondents and 2 respondents respectively each from Middle (54 respondents) and Lower (36 respondents) category employees by making a total of 90 respondents from whom opinions are collected for assessing the changes in financial management practices during the periods of liberalization.

Tool used for Collection of Data

An interview schedule is specifically developed for collecting opinion from the respondents at various levels. The interview scheduled is finalized after pilot survey.

Tools used for Analysis of Data

The collected data are validated, tabulated and classified. Statistical tools used for analysis are ratios, correlation and regression by using SPSS. An item wise analysis is made by using average opinion score. Multiple regression analysis is
made for predictor equations of financial management under liberalization. Trend line is also fitted for knowing the trend of progress in financial performance of PSEs in Kerala.

**Period of Study**

The present study is focused on the financial performance and management practices of Public Sector Enterprises in Kerala under liberalization. Hence, the period of this study was taken for 20 years from 1990-91 to 2009-2010.

**Limitations of the study**

The analysis and interpretation are made on the basis of views expressed by the respondents in the sample and earnest efforts were made for checking the authenticity by discussing the matter with the experts in the field. The financial performance evaluation is made with the help of the information available with the bureau of public sector enterprises.

**Chapter Design**

The research report is presented in Five Chapters as shown below:

**Chapter I : Introduction**

This chapter introduces the research topic, design of the study and the methodology adopted. It also contains problem statement, objectives, hypotheses, variables identified, period, scope and limitations of the study. The Review of literature is also incorporated in this chapter.
Chapter II: Public Sector Enterprises and its Financial Management – An Overview

The second chapter gives an overview of public sector enterprises in India and Kerala which serves as the background of the study.

Chapter III: Financial Performance of Public Sector Enterprises – An Analysis

This chapter presents information about the trend in the financial performance of the public sector enterprises in Kerala under liberalization period.

Chapter IV: Financial Management of Public Sector Enterprises under Liberalization – Manager’s Perception

This chapter gives information about the views of respondents on the financial management practice under liberalization.

Chapter V: Summary of Findings, Conclusions and Suggestions

This chapter describes the summary of the study and the inferences drawn based on the findings and suggestions for improvement.
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