CHAPTER - 2

PUBLIC SECTOR ENTERPRISES:
ITS OBJECTIVES AND POLICIES
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**PUBLIC SECTOR ENTERPRISES: ITS OBJECTIVES AND POLICIES**

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CHAPTER - 2

PUBLIC SECTOR ENTERPRISES: ITS OBJECTIVES AND POLICIES

2.1.0 Introduction :
2.1.1 The nature of the organisation, the policy and attitude of management have bearing upon an efficient inventory management. We touch upon the overall perspectives of the public sector enterprises and also the history and growth of the public sector industry in India before dealing with the problem. In this chapter, we give an outline of the public enterprises in general.

2.2.0 Public Enterprise
2.2.1 The term 'public enterprise' is sometimes understood as any economic activity of the Government taking a distinct difference from private economic activity. However, "as an organisational entity, the term 'public enterprise' is defined as an economic undertaking which is owned and controlled by the public authorities and to which, the output is marketed i.e. not provided free of charge" (1)

2.2.2 Industrial and commercial undertakings over which public authorities have ownership control may be divided into two categories :

* Departmental undertakings
* Non-departmental undertakings (2)

The non-departmental category may again be divided into 2 groups :

* Companies with majority ownership with Government incorporated under the Company Law.
Statutory Corporations established by special law enacted by the Parliament or Assembly.

An overview of the legal position, managerial policies and the relations between the Government and public enterprises and other characteristics have been given in Appendix - 2.1

2.3.0 The History of Public Sector Enterprises & Industrial Policies

2.3.1 The history of public sector enterprises in India may demand a respectable antiquity. As per Arthashastra, Kautilay's public sector comprised a number of industries like Salt, Mining, Minerals, Gold etc. The chief of the salt industry used to be called Lavanadhyaksha and similarly for mining & minerals Akaradhyaksha, for Iron & Steel industry Lohadhyaksha and for gold Swarnadhyaksha etc. and they were responsible for the manufacturing and mining of these products. In this Arthasastra (300 BC), Kautilya wrote "The Government shall keep as a state monopoly both mining and commerce in minerals, for mines form the source of the treasury and from the treasury comes the power of Government." (3) But the evolution of the present public enterprises in India is comparatively a new one and to be specific it started only after India's independence in 1947. Before 1947, the railways, the post and telegraph, the port trust, the ordnance factories could only be mentioned as those belonging to the public sector. Two industrial policy resolutions of 1948 and 1956 may be regarded as the cornerstones of India's industrial development programme since independence. The role of public sector in India's economic development should be studied keeping in view of these industrial policy resolutions. We now
mention them and the subsequent industrial policies in brief in the following sections.

2.4.0 Industrial Policy Resolution (1948)

2.4.1 In the Industrial Policy Resolution (IPR) of 1948, the concept of mixed economy was first spelt out with an overall responsibility of the Government for the planned development of industries and their regulations in national interest. The IPR divided industries into 4 categories:

1. The first category of industries would be exclusively under state monopoly.
2. The second category of industries are those where the state would have the exclusive responsibility of promoting and establishing new units.
3. The third category of industries would be open to individual and cooperative enterprises under state regulation.
4. The fourth category comprising of the remainder of the industrial field was left open to individual and cooperative enterprises.

2.4.2 In the first category where the industrial activities were reserved for the public sector as exclusive state monopolies were, manufacture of arms, ammunition and allied items of defence equipment, atomic energy, railway transport.

2.4.3 In the second category six industries were included where Government would have the exclusive responsibility of initiating and establishing new units in the public sector. These were - iron & steel, aircraft manufacture, ship building, coal
and lignite, telephones and telephone cable, telegraph and wireless apparatus (excluding radio receiving sets), and mineral oil.

2.4.4 The existing private undertaking in these industries were however to continue, at least for a period of ten years, after which the situation would be reviewed.

2.4.5 The third category included eighteen industries, which were open to private enterprise subject to government regulation. The industries included in these were; heavy castings and forgings of iron and steel, heavy plant and machinery for basic industries like iron & steel production, mining, machine tool manufacturing etc. heavy electrical plants including large hydraulic steam turbines, fertilisers, antibiotics and essential drugs, mining of iron ore, manganese ore, chrome ore, gypsum, sulphur, gold and diamond, mining and processing of copper, lead, zinc, tin, molybdenum and wolfram, minerals specified in the schedule to the Atomic Energy (Control of production and use) Order, 1953; all other minerals except minor minerals, aluminium and other non-ferrous metals, machine tools, ferro-alloys and tool steels, basic and intermediate products required by chemical industries such as manufacture of drugs, dye stuff and plastics, synthetic rubber, carbonisation of coal, chemical pulp, road transport, sea transport etc. (5)

2.4.6 Planning Commission was set up in 1950. The first five year plan which was launched on 1st April, 1951 laid down its objectives as follows:

2.4.7 "The scope and need for development are so great that it is best for the public sector to develop those industries in
which private enterprise is unable or unwilling to put up the
resources required and run the risks involved leaving the rest of
the field free for private enterprises" (6)

2.4.8 Thus we may conclude that the main emphasis of the 1948
IPR was to lay foundation of a mixed economy, where both private
and public enterprises would work hand in hand to accelerate the
plan of industrial development.

2.5.0 Industrial Policy Resolution (1956)

2.5.1 Parliament adopted the socialistic pattern of society
as the objective of social and economic policy, in December, 1954.
So the scope of the public sector was widened in the Industrial

2.5.2 The general principle that followed was - "The adoption
of the socialist pattern of society as the national objective as
well as the need for planned and rapid development required, that
all industries of basic and strategic importance, or in the nature
of public utility services should be in the public sector. 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. The state has,
therefore, to assume direct responsibility for the future
development of industries over a wider area." (7)

2.5.3 Keeping these factors in view, the fresh statement of
Industrial Policy came on 30th April, 1956. Under this, the state
can assume the direct responsibility for the future development
of the industries over a wider area than before, but the first
IPR's ten year guarantee against nationalisation was not repeated.
The resolution classified industries into three categories with a
closer resemblance to the earlier classification, but more sharply defined.

2.5.4 Seventeen key industries specified in Schedule A would be the exclusive responsibility of the state. Twelve industries listed in Schedule B would be progressively state-owned and in which the state would generally set up new undertakings, but in which private enterprises would be expected to supplement the effort of the state. Schedule A and Schedule B of IPR of 1956 have been given in Appendix-2. The remaining (not listed) would be left to the private sector. But they had to fit in the framework of social and economic policy of the state and be subject to control in terms of the Industries (Development and Regulation) Act and other relevant legislations.

2.5.5 The IPR 1956 thus promised the private industrial undertakings as much freedom as is consistent with the targets and objectives of the national plan. IPR 1956 also assured that there would be fair and non-discriminatory treatment in both the public and private sectors, existing in the same industry.

2.5.6 Apart from widening the scope of state participation in industrial development, the IPR of 1956 also emphasised the need to run public enterprises on business lines. It may be quoted from the Resolution as follows:

2.5.7 "Speedy decisions and a willingness to assume responsibility are essential if these enterprises are to succeed. For this, wherever possible, there should be decentralisation of authority and their management should be along business lines"(8)

2.5.8 IPR 1956 may be considered as economic expression to the objectives of socialistic pattern and mixed economy. The
resolution doubted the competence of the private sector to bring the economic development by itself and depended more on Public sector. H Venkatasubbiah (8) mentioned "The so-called private sector became a sort of residuary legacy. Economic development was more explicitly equated with state enterprises". The resolution appeared to be a threat that public sector would grow into giant to takeover the private sector. But that was a misreading, there were enormous scope for private sector to grow as has been correctly mentioned by D K Rangnekar (9) as "The Industrial policy resolution of 1956 set out some of the principles of Nehru's philosophy though it retained sufficient ambivalence to placate the uncommitted elements". The fact remains that the policy resulted rapid expansion of the public sector in basic and heavy industries. Quoting Rangnekar again "Private sector investment zoomed in the wake of public sector expansion". The basic thrust for IPR 1956 was industrial advancement not the private profit but social gain. The public sector was to grow absolutely and also relatively to the private sector (10).

2.6.0 Industrial Licensing Policies

2.6.1 It was felt that the Industries (Development and Regulation) Act 1951, which was passed to implement the Industrial Policy Resolution of 1948 had not served its purpose sufficiently. R K Hazari reviewed the working of the Act and brought out some sensational disclosures about the abuse of licensing system (11). To sum up, the licensing policy projected an exaggerated picture of industrial capacity, it encouraged foreclosure of licensed capacity by influential and powerful industrial houses.
who could afford to sit tight on unutilised licences. Industrial licencing instead of being an instrument of industrial development became an impediment. 2.6.2

Following this disclosure, Government of India appointed a committee in July 1967 under the chairmanship of Mr. Subimal Dutt. The report of the Dutt Committee was a landmark, because it revealed that the working of our licensing system was leading to the growth of monopoly capital and economic concentration in the hands of a few business houses. Its recommendations were directed to economic development in the framework of mixed economy. The Dutt Committee suggested a core sector consisting of industries of basic, critical and strategic importance to the economy. Barring specified industries, which would be the exclusive monopoly of state, large industrial houses were allowed to apply in the core and heavy investment sectors. This recommendation had thus scrapped the arguments of second plan for reservation of industries of basic and strategic importance to public sector. Dutt Committee also suggested the concept of "Joint Sector", where both the public and private sector would act as partners in a project.

2.7.0 Industrial Policy (1970) and Licensing Procedures

2.7.1 In February, 1970, the Government of India issued its new industrial licensing policy accepting the recommendation of Dutt Committee Report. Industries in the core sector had been indentified from this core list. The industries included in schedule A of the Industrial Policy Resolution, 1956 (as amended from time to time) were kept for the public sector. All new investment propositions of over 5 crores were deemed to be in the
"heavy investment" sector. Large industrial houses, foreign concerns were allowed to participate in the establishments of core sectors and heavy investment sectors.

2.7.2 The policy divided the industries into four sectors:

i) A 'Reserved' sector which would include industries listed in schedule A of IPR 1956. These would be developed exclusively in the public sector.

ii) The 'Core' and 'Heavy Investment' sectors which would include the industries which were basic, critical and strategic to the economy and industries involving new investments of over Rs. 5 Crores. The operation of large industrial houses was to be restricted in this field and major projects would have to be developed in the 'joint sector'.

iii) A 'Middle' sector where the new investment would be in the range of Rs. 1 to 5 Crores, would be subject to licensing, but large industrial houses and units which require substantial foreign exchange would be barred from this sector.

iv) A 'Delicensed Sector' which would include the industries involving investment upto 1 Crore. (14)

2.7.3 The Parliamentary Committee on Public Undertakings (COPU) in its 40th report strongly recommended that the public sector should also move into the area of consumer articles. So the public enterprises started producing bread and beverages, cloth making, and started its venture in trading and marketing, contracts and consultancy.
construction and transportation equipment.

2.7.4 In 1949, the Reserve Bank was nationalised. In 1953, Indian Airlines was nationalised and then Insurance Companies were absorbed in Life Insurance Corporation. With the nationalisation of 14 principal banks in 1969 and the general insurance in 1971, the Government had the access to enormous funds to implement its economic policies. In 1972, coking coal mines were nationalised in Bharat Coking Coal. Next year, private coal mines were transferred to the Coal Mines Authority which in 1976 redesignated as Coal India Limited.

2.7.5 In the next phase the sick private industries were taken over to safeguard the interests of workers and wherever possible to bring back the health of the industry. The industries thus came to the fold of Government included Jessops, Richardson & Cruddas, Balmer Lawrie, Burn & Co., Braithwaite & Co., Indian standard wagon Co. and Indian Iron & Steel Co Ltd. After taking over about 110 sick textile mills, the public sector found itself in deep economic distress.

2.8.0 Industrial Policy of 1973

2.8.1 The Government was not able to bring in efficiency in public sector, but under pressure from the left forces, it had to undertake progressive nationalisation and expansion of public sector. This had resulted some uncertainty in the investment climate and discouraged private sector investment. The industrial growth rate slowed down. The Government then brought in some changes in Industrial Policy Resolutions in February, 1973.
The main points were:

a) In the context of the approach to the Fifth Plan, the core industries which would be important to the national economy in the future, and industries which would have direct linkages with such industries and industries which would have long export potential would all be of basic, critical and strategic importance. A consolidated list of such industries had been prepared.

b) Foreign concerns and subsidiaries and branches of foreign companies were also made eligible to participate in these industries.

c) Cooperatives, small and medium entrepreneurs were to be encouraged to participate in the production of these mass consumption goods.

d) The Government (both centre and state) would develop joint sector as a promotional instrument in priority areas.

With this the Government wanted to assure the private sector that no more nationalisation of industries was being contemplated.

Industrial Policy Resolution 1977

In December 1977, the Government again announced its industrial policy resolution. The main thrust of that policy was on the development of cottage and small scale industries. Operation of large scale sector included:

i) basic industries essential for building up infrastructure for industrial development of both large and small industries,
ii) capital goods industries providing for machinery requirements of large and small industries,

iii) high technology industries,

iv) other industries not covered by the list of reserved items for small scale sector.

Public enterprises would not only have to produce basic and strategic goods, but also should maintain essential supplies of consumer goods, encourage and promote ancillary industries and contribute to the growth of small scale sector.

2.10.0 Industrial Policy Statement, 1980

2.10.1 The industrial policy statement of July 1980 laid down the socio-economic objectives of industrial policy as follows:

i) Optimum utilisation of installed capacity

ii) Higher employment through maximising production and productivity.

iii) Preferential development of industrially backward areas.

iv) Faster promotion of export oriented and import substitution industries and for preferential development of agro based industries.

v) Consumers' protection against high prices and bad quality.

2.11.0 Industrial Policy Changes Between 1985 to 1990

2.11.1 Government made many significant changes in industrial policies during 1985 to 1990. Those can be broadly grouped into three categories:

i) Measures to facilitate capacity creation

ii) Measures to facilitate output expansion
iii) Measures to remove procedural impediments.

2.11.2 As per the first category the important ones are delicensing of large number of industries, modernisation and upgradation of technology of existing units and recognition of minimum economic capacity in respect of 84 industries. During 1988-89, a major package of industrial delicensing was announced to attract investors and to promote industrial growth. At the same time to prevent the fragmentation of capacity at uneconomic levels and to impart cost-efficiency, the above mentioned 84 industries were allowed automatically to expand their capacities up to the prescribed minimum economic capacity limits.

2.11.3 In order to facilitate output expansion two major steps had been taken:

   i) A new scheme of re-endorsement in substantially liberalised form had been introduced from 1st April '88.

   ii) Many industries had been allowed to change their product-mix without applying for fresh licence. This broadbanding was permitted only within the existing licensed capacity.

2.11.4 To remove the procedural impediments, the validity of letters of intent issued after 1st June 1985 and the validity of registration granted by DGTD after 1st June 1985 had been increased. Foreign companies were also allowed to submit applications for industrial licences and once approved they would have to incorporate a company in India to implement the projects.

2.11.5 On June 3, 1988 Government announced a decision to set up 100 growth centres throughout the country over the next five years or so. It was desired that these growth centres should
serve as gravity centres for attracting industries to backward areas through adequate development of infrastructure in these growth centres.

2.12.0 The New Industrial Policy 1991

2.12.1 On July 24, 1991, the Government announced its New Industrial policy, which marked the beginning of a new era in the economic history of India. As per this Policy industrial licensing have almost been done away with, barring 18 specialised cases. All restrictions on MRTT companies have been virtually removed. The limit of foreign equity participation in industries have been increased from 40 percent to 51 percent in many high priority areas. All registration formalities have been removed. The public sector reserve list includes only arms and ammunition, atomic energy, mineral oils, rail transport, mining of coal, minerals etc. significantly deleting steel, aircraft, telecommunications, power transmission and distribution, shipbuilding etc. from the list. Many of the changes like steel decontrol, trade liberalisation, partial convertibility of the rupee, tax rationalisation have created a favourable environment for industrial revival, export buoyancy and economic growth. Everybody is eagerly watching how far this "market friendly" policy will succeed and how far the economic efficiency will improve. Since our study relates to period 1980-81 to 1989-90 the impact of such changes can not be measured and accordingly we have not dealt this issue, although it is clear that public sector industries which have recently been deleted from the reserve list will have to manage their resources much more efficiently, if they want to retain their identity as public
enterprise. Obviously they will have to handle their working capital much more delicately and also they will have to be sensitive to their inventory.

2.13.0 Impact of Industrial Policy Resolutions over the years

2.13.1 Presently public enterprises have been involved in large number of economic, social and industrial activities, which affects almost every aspect of our day to day life. Today it is involved in industries which require high investments, industries which require long gestation period, industries where return on investment is low. It has started industries in the backward region to fulfill its social responsibilities. In short it has laid a sound economic infrastructure and for that it has also ventured in the areas where private sectors would have never dared. Thus the objectives of different Industrial Policy Resolutions at different point of time may be summed up as :

I. General objectives:

* Creating the necessary infrastructure for economic development.
* Accelerating economic growth.
* Promoting redistribution of income and wealth.

II. Special Objectives:

* Earning adequate return on investment and thus generating resources for development.
* Creating employment opportunities.
* Promoting balanced regional development.
* Assisting the development of small scale and ancilliary industries.
Promoting import substitutions, saving and earning foreign exchange for the economy.

- Reviving private enterprises.
- Controlling the 'commanding heights of the economy and so on.

2.13.2 The public sector today occupies a key position in national economy in several sectors especially in the production of fuel, basic metal industries, non-ferrous metal industries, fertilizers and communication equipment. Public Sector's contribution to total industrial production is given in Appendix-2.3.

So far as the investment in public enterprises are concerned the growth is also phenomenal. From a figure of Rs.290 million as on 31st March 1951 in 5 enterprises investment stood at Rs.993150 million as on 31st March 1990 in 244 enterprises. The Seventh Plan (1985 - 86 to 1989 - 90) itself had an investment of around Rs.4,30,000 millions. Thus, by the end of the Seventh Five Year Plan the country is having a very gigantic public sector set up which represent about 60% of the total corporate capital in India.

2.14.0 Performance of Public Enterprises

2.14.1 The above facts always lead to the question whether this spectacular growth which the public enterprises had over the years, has made public enterprises business-like or they are costing to the exchequer. The profitability picture of public enterprises is given in Table-1 at page-50. It will be seen from the ten years' profitability picture that although total number of operating enterprises have been increased from 168 to 233, the percentage of loss making units are within the
range of 42 to 47 percent every year. There is steady improvement of Net profit to Capital employed although there is no significant change in the ratio of Gross profit to Capital employed. Two very significant trends are visible - "Annual Growth Rate of Sales (%)" has been showing a downward trend, whereas "Annual Growth Rate of Capital Employed (%)" has been indicating an upward trend. These two trends are very alarming. The net profit of Rs.37817.3 Million in 1989-90 is the highest quantum of net profits achieved till 1989-90. The previous best being Rs.29935.3 Million achieved in 1988-89. The percentage of gross margin to capital employed is 19.43% and percentage of gross profit (profit before interest and tax) to capital employed, is 12.58% indicates the improved performances during the last few years.

2.15.0 Is Profit a measure of performance?

2.15.1 There has been a continuous debate whether profit should be used as a criterion for judging the performance of public enterprises. The history of public enterprises reveal that variety of considerations had been used for the growth of the public enterprises, number of considerations had been used on pricing policy. So it would not be fair to use profit as criterion of their efficiency. In fact, for a long time it was believed as "a 'sin' to make profit" (16) in the public sector. People have started looking the financial 'Internal Rate of Return' with 'Social Rate of Return' for any investment in public enterprises only very recently.

2.15.2 Again the profit objective should not be considered as the sole criterion for performance evaluation, because public
enterprises have not been allowed to function as commercial concerns. The commercial and technology based operations have to rely on judgment, risk taking, along with technical and marketing knowledge. The management system must provide the scope for entrepreneurial judgment. Inspite of the fact that the joint stock company structure had been accepted for public enterprises to get rid of the Governmental rules, they have been running still like departments. The public enterprises use files and rules-oriented practices. It is safer to obtain many signatures at different levels than to risk a deviation based on past wisdom.

2.16.0 Objectives of PEs, the need for clear definition

2.16.1 Although there have been considerable improvement in the performance of public enterprises, but considering its business identity the performance is not good. The prime reason may be that the objectives of public enterprises have never been defined properly. Late Indira Gandhi who was the Prime Minister for a number of terms, expected public enterprises to lay the foundations for self reliant industrial growth, help build up an economy in which society as a whole controls the vital sectors and lastly to create surpluses for further growth. (17)

2.16.2 According to another former Prime Minister, Mr Morarji Desai; "It is unfair to expect the people of India to continue to subsidise losses of most of these projects year after year or ask them to pay price higher than the landed cost of similar products if they had been allowed to be imported. The time has now come when we should take a close and critical look at the performance of the various enterprises and see that their management leads to the fulfilment of the expectations of the people". (18)
2.16.3 The chief executives of public enterprises had expressed in different forums to put down the objectives in black and white. In 1976, Standing Conference of Public Enterprises (SCOPE) first organised a national convention on this issue. It was resolved there that "There is an urgent need for a declaration of national objectives in respect of the role of the public sector in national economy."(19) In 1979, in the second convention of SCOPE, it was mentioned that "Realising that there is considerable confusion in the public mind as well as within the public sector itself as to the criteria on which their performance should be judged, and in particular about the profitability criterion, and taking into account the fact that the applicability of various criteria varies in different sections or groups of public enterprises, the convention is of opinion that the objectives underlying individual or groups of such enterprises need to be defined as precisely as possible so that each undertaking could be judged on the basis of the objectives with which it was set up. It would be desirable that in future these objectives should be clearly defined before any new project is taken up for implementation and the target of performance in various respects, commercial as well as social, be incorporated in an instrument of instruction which should be issued to the board of directors by the Government. In regard to the existing undertakings such studies should be undertaken by the enterprises themselves and the approval of the Government may be obtained for these objectives." (20) Thus there had been a continuous demand that the Government should define the objectives, autonomy and accountability of public enterprises in
a 'White Paper'. The British nationalised industries had already brought out these white papers - first in April 1961, second in November 1967 and the last in March 1978. In India during preindependence era the British Government had brought out one 'Statement of Government's Industrial policy 1945'. This may be regarded as the precursor of the industrial policy of the Government in the post independent period. It was mentioned there 'Apart from ordnance factories, public utilities and railways, basic industries of national importance may be nationalised provided adequate private capital is not forthcoming. It also is regarded as essential, in the national interest to promote power resources and important capital goods industries'. (21) Industries left to private enterprise were subjected to licensing, investment controls and other regulatory measures to eliminate excessive profits, improvement of quality of products and to institute a fair deal for labour (22).

2.16.4 After a long gap a 'White paper' had been prepared by a Committee headed by Mr V Krishnamurthy, former Chairman, SAIL and comprising mostly of public sector chief executives. It was expected that there should be a public debate on this. Instead, it had been submitted to the Government and Government was somehow hesitant in bringing out its considered policy based on this 'white paper'.

2.16.5 The nebulous and vague objectives of public sector are often heard in seminars. In absence of specific objectives speakers in the seminar come with their different perceptions about the objectives of public enterprises. Sometimes these
objectives are contradictory to each other. For example, the public sector is supposed to generate employment, prevent closure of private undertakings, work as a model employer, provide essential consumer goods at reasonable prices, and at the same time, the public sector is also supposed to generate surpluses by ensuring adequate return on investment. So Government must specifically come out and define the objectives, autonomy, and accountability of PSE's. In this context, there were several National conventions & conferences—few have been mentioned later in collateral studies.

2.16.6 It appears from the profitability profile that the public enterprises have not been showing a bright picture commensurate with their capital investment. But this performance has to be viewed against the background of the multi-dimensional objectives of public enterprises as mentioned above and also the fact that these enterprises have been functioning in different segments of industry and facing divergent constraints.

2.16.7 With a view to studying and highlighting the peculiar problems of public sector enterprises, the Economic Administration Reforms Commission on Government and Public Enterprises led by Late L.K. Jha submitted reports (23) on the various aspects including the profitability of public enterprises. According to the Jha Committee, the main reasons, for the unsatisfactory performance of the public enterprises, are attributable to the following:

1. wrong investment decisions;
2. time and cost overruns;
3. social overheads;
4. uneconomic pricing policies;
5. infrastructural problems, and
6. managerial weaknesses.

It is not the intention of our study to deal with the above individually, however in the subsequent section we have dealt in brief with work ethics, as efficient utilisation of resources, human and non-human, is only possible through efficient and result-oriented management.

2.17.0 Work Ethics in public enterprises
2.17.1 The efficient operation of an enterprise is not possible without a good environment prevailing in and outside the enterprise. Work ethics of public enterprises thus become relevant in the implementation of a good inventory management system. The work ethics of the public enterprises is really deplorable. Employees at all levels do not appear to have much concern about results. This work ethics have presumably come from the environment of an average government office. Employees generally derive pleasure in feeling that they are part of 'Government' rather than they are member of a 'Commercial' organisation. Again the administrative ministries also derive material and psychological satisfaction for public enterprises. In most cases the ministries consider the public enterprises in a proprietorial way. This feeling is shared by the officers at all levels in the Government. Thus members of government and employees of public enterprises live at peace with mutual tolerance.
2.17.2 The public enterprises have copied the government's rule oriented practices. The paperwork is more important to support the actions. Decisions are taken within the framework of the existing rules rather than looking at the cost of delays in decision making. Rules, interpretation of rules and procedure are more important than results. The whole set up has come to a stage that it is safer to agree than to risk deviation from the stated position. This may be due to the fact that at the launching phase the chief executives had been chosen from Government who felt comfortable with their old ideas and assumptions.

2.17.3 Although the organisations and administrative practices of high-tech industries should be different from less technology based organisations, Government agencies like Bureau of Public Enterprises (BPE) enforce uniformity in grades, levels, employment practices. No doubt uniform practices are convenient so far administration is concerned, but for innovative solutions, the uniform treatment creates a discouraging environment.

2.17.4 Public enterprises management must have some autonomy to fulfil its entrepreneurial role. The administrative ministry, the bureau, the labour ministry, the urban development ministry, political leaders and many others have confused their role. Public enterprises management and government have separate and complimentary role—a role of mutual respect and not a role of superior subordinate relationship.

2.17.5 With the idea of giving autonomy to public enterprises, a memorandum of understanding (MOU) between the Government and the Public Sector units was recommended in the report of the
Committee to review Policy for Public Enterprises with Arjun Sen Gupta as Chairman in January, 1986. The idea with which the Committee was formed was that it would define the obligations of both the parties, the constraints which are expected to be removed by the Government to provide a better environment and the results the enterprise is expected to achieve within a defined period of time. The idea was to improve the performance of public enterprises and to reduce the day to day interference of the ministry in their management. Much of the success of MOU will of course depend on the endeavour that both the parties will take to reorient their functions.

2.17.6 The above perspective of the development of public enterprises will help us in understanding that under what set up the public enterprises' Chief Executives have been operating and what would be their approach to all financial decisions including 'Inventory Management'.

2.18.0 Collateral Studies

2.18.1 Performance of public enterprises have been studied by a number of authors, researchers from time to time. Some of the views made by them have been mentioned earlier, but many other studies have also been reviewed which have helped in forming the conceptual framework. Those are mentioned in the subsequent section.

2.18.2 R M Bhandari, a former advisor (Finance) BPE, puts forward the argument that public enterprises had caused an undue burden on the exchequer as the capital outlay on public enterprises is met out of borrowed funds by the Government and
the dividends on equity is less than the interest charges paid by the Government.

2.18.3 R K Nigam (26) reviewed the performances of public enterprises during 1969-70 and 1973-74. His conclusions were that the image of the public sector undertakings were shattered, because of huge loss in initial years. But the year of prosperity had started. The annual report of the working of industrial and commercial undertakings (1974-75) (27) presented on 2nd April 1976, in the Parliament reinforced the conclusion.

2.18.4 A very noteworthy comment which has relevance with inventory also made by the study Team on Public Sector Undertakings as "The causes leading to over-capitalisation can be traced to inadequate planning, delays and avoidable expenditure during construction, surplus machine capacity, tied aid resulting in the compulsion to purchase imported equipment on a non-competitive basis, expensive turn-key contracts, bad location of projects and the provision of housing and other amenities on liberal scale." (28)

2.18.5 While writing on shortcomings of the public sector it has been mentioned in the book "Indian Economy" (29) that "the successful operation of public enterprises is dependent upon the availability of experienced persons to fill up top positions. An important practice has been to use bureaucrats as Chairmen, Managing Directors and managers in public enterprises. Many of them are not really qualified to run industrial enterprises. Another wrong practice has been to send professional politicians (especially those defeated in elections) to manage public enterprises.

48
2.18.6 Raj K Nigam in his article "Farewell to the public sector" (30) mentioned that "the public sector employs about two-thirds of the workers employed in the organised segment of the Indian Economy and nearly 40% are employed in the economic enterprises. The value of goods and services sold by the public sector enterprises register an annual growth of 20% and in absolute terms the sales/turnover of public enterprises in 1985-86 amounted to Rs.1050000 million out of which non departmental non financial enterprises contributed Rs.850000 million". In the context of such gigantic parameters of the public sector, it is simply inconceivable to fold up the public sector even by stages since such a process is bound to cause serious social and economic repercussions in the economy, resulting in unemployment and affecting the operations of private sector, which has come to depend on the public sector."

2.18.7 A comment made by S.P Wahi, chairman, ONGC (31) regarding memorandum of understanding (MOU) is also very relevant. "MOU does bring a certain amount of moral pressure on the Government Officials on signing, but has not served the purpose of getting away from "back seat driving."

2.18.8 V Krishanaswathy (32) mentioned in his talk at Commonwealth public enterprises management annual round table, Cyprus, on June 1, 1987, that "the Government will have to bring clarity in its approach and relationship with the enterprise. The enterprise on its part, will have to build a strong sense of accountability and customer orientation in its operation. In the final analysis both the government and the enterprise must exist to serve the common cause-consumer".
Table 1
Profitability of Public Enterprises

<table>
<thead>
<tr>
<th></th>
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<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of profit making enterprises</td>
<td>94</td>
<td>104</td>
<td>109</td>
<td>108</td>
<td>113</td>
<td>119</td>
<td>108</td>
<td>114</td>
<td>117</td>
<td>131</td>
</tr>
<tr>
<td>No. of loss making enterprises</td>
<td>74</td>
<td>83</td>
<td>82</td>
<td>92</td>
<td>92</td>
<td>90</td>
<td>100</td>
<td>103</td>
<td>106</td>
<td>98</td>
</tr>
<tr>
<td>(Percentage to total units)</td>
<td>(44)</td>
<td>(44)</td>
<td>(43)</td>
<td>(46)</td>
<td>(44)</td>
<td>(43)</td>
<td>(47)</td>
<td>(47)</td>
<td>(47)</td>
<td>(42)</td>
</tr>
<tr>
<td>No. of enterprises making no-profit-no loss</td>
<td>-</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>6</td>
<td>3</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>No. of operating enterprises</td>
<td>168</td>
<td>188</td>
<td>193</td>
<td>201</td>
<td>207</td>
<td>211</td>
<td>214</td>
<td>220</td>
<td>226</td>
<td>233</td>
</tr>
<tr>
<td>Net profit/loss (-) to capital employed (%)</td>
<td>(-) 1.11</td>
<td>2.03</td>
<td>2.31</td>
<td>0.60</td>
<td>2.50</td>
<td>2.73</td>
<td>3.42</td>
<td>3.65</td>
<td>4.43</td>
<td>4.48</td>
</tr>
<tr>
<td>Gross profit to capital employed (%)</td>
<td>7.79</td>
<td>12.10</td>
<td>13.06</td>
<td>11.94</td>
<td>12.72</td>
<td>12.31</td>
<td>12.58</td>
<td>12.48</td>
<td>12.60</td>
<td>12.58</td>
</tr>
<tr>
<td>Sales to capital employed (%)</td>
<td>157.3</td>
<td>166.3</td>
<td>158.3</td>
<td>158.4</td>
<td>150.6</td>
<td>145.1</td>
<td>133.3</td>
<td>146.1</td>
<td>137.7</td>
<td>125.6</td>
</tr>
<tr>
<td>Gross profit to sales (%) (Average: 8.2%)</td>
<td>5.0</td>
<td>7.3</td>
<td>8.3</td>
<td>7.5</td>
<td>8.5</td>
<td>3.35</td>
<td>9.4</td>
<td>8.5</td>
<td>9.2</td>
<td>10.0</td>
</tr>
<tr>
<td>Annual growth rate of sales (%) (Average: 15.74%)</td>
<td>-</td>
<td>27.4</td>
<td>15.1</td>
<td>12.6</td>
<td>15.9</td>
<td>13.8</td>
<td>10.8</td>
<td>17.6</td>
<td>14.6</td>
<td>13.9</td>
</tr>
<tr>
<td>Annual growth rate of capital employed (%) (Average: 18.7%)</td>
<td>-</td>
<td>20.5</td>
<td>20.9</td>
<td>12.5</td>
<td>21.9</td>
<td>18.1</td>
<td>20.57</td>
<td>7.3</td>
<td>21.6</td>
<td>24.9</td>
</tr>
<tr>
<td>Annual growth rate of G.P. (%) (Average: 24.1%)</td>
<td>-</td>
<td>87.2</td>
<td>30.5</td>
<td>2.9</td>
<td>29.8</td>
<td>14.2</td>
<td>23.3</td>
<td>6.4</td>
<td>23.5</td>
<td>23.9</td>
</tr>
</tbody>
</table>

Notes:
Capital Employed : Net block plus working capital.
Gross Margin : Excess of income over expenditure but before providing depreciation, interest and taxes
Gross profit : Excess of income over expenditure including depreciation but before interest and taxes
Net profit : Gross profit less interest on loan and taxes but before appropriations

REFERENCES

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6. Govt. of India, Planning Commission, First Five Year Plan, New Delhi, Page-45
7. Govt. of India, Planning Commission, Second Five Year Plan (1956), New Delhi, Page-45
10. Second Five Year Plan (1956) New Delhi, Chapter-II
17. Message of the Prime Minister to the inaugural issue of Lokudyog, March, 1967
18. Message of the Deputy Prime Minister to Lokudyog, April, 1967


23. i. The Top Management and the Board (EARC-II Report No. 2, November, 1983)

ii. Autonomy and Accountability (EARC-II Report No. 4, January, 1984)


29. Dutt Ruddar & Sundaram K P M, Indian Economy, S Chand & company Ltd., New Delhi, 1977, Page 162

31. Wahi, S P , Ex-Chairman, ONGC in his paper at the Fourth National conference of the Chief Executives of the Public Enterprises Organised by the department of public enterprises (January, 1988)

32. The Economic Times, Calcutta Saturday, September 5, 1987
### Appendix-2.1

#### The form & Characteristics of Public Enterprises

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Form of Organization</th>
<th>Departmental</th>
<th>Joint Stock Companies</th>
<th>Statutory Corporation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Ownership</td>
<td>Wholly owned by the Government. It is a part of the Government</td>
<td>Partly (not less than 51%) or wholly owned by the Government and it has separate Entity</td>
<td>Wholly owned by the Government and it has separate Entity</td>
<td></td>
</tr>
<tr>
<td>2. Legal status</td>
<td>part of the Government</td>
<td>Separate Entity</td>
<td>Separate Entity</td>
<td></td>
</tr>
<tr>
<td>3. Laws Applicable</td>
<td>Government laws, rules and regulations are applicable</td>
<td>Governed by the Companies Act and Rules &amp; Regulations framed by Bureau of Public Enterprises</td>
<td>Specific laws and as enacted by Parliament</td>
<td></td>
</tr>
<tr>
<td>4. Mode of Creation</td>
<td>By Government</td>
<td>By Government under Companies Act, without specific sanction of Parliament</td>
<td>By Parliament through specific Act</td>
<td></td>
</tr>
<tr>
<td>5. Methods of changing the objectives of the undertaking</td>
<td>May be set and changed by Government</td>
<td>May be set and changed by the company as per Companies Act, amending the Articles of Association.</td>
<td>May be changed, but by Parliament only</td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td></td>
</tr>
<tr>
<td>6. Organisations structure of the enterprise</td>
<td>Can be designed and changed by Government</td>
<td>Can be designed and changed by the company</td>
<td>For changing the organisation status approval of Parliament through the Act needed</td>
<td></td>
</tr>
<tr>
<td>7. Financing</td>
<td>From Government Treasury through annual budget.</td>
<td>Equity from share holders; loans from Govt., Fin. institutions and nationalised banks (these companies operate within some restriction imposed by the Government)</td>
<td>Equity from Government loans from financial institutions, Public, nationalised banks.</td>
<td></td>
</tr>
<tr>
<td>8. Budgeting, Accounting &amp; Audit</td>
<td>As applicable to Govt. Annual Reports and balance sheet, not reported to Parliament separately, not covered by Bureau of Public Enterprises</td>
<td>Exempt from Govt. procedures, separate Annual Reports; Statutory Audit, and Audit by C&amp;AG (Audit Board); Covered under the annual report by the Bureau.</td>
<td>As enacted by specific law; the annual report by the Bureau covers statutory corporations other than purely banking and financial institutions</td>
<td></td>
</tr>
<tr>
<td>9. Personal</td>
<td>Staffs are Civil Servants. Recruitment and service rules of Government are applicable.</td>
<td>Except deputationist, officers are not Civil Servants.</td>
<td>Except deputationist officers are not Civil Servants.</td>
<td></td>
</tr>
<tr>
<td>10. Examples</td>
<td>Railway Board, Integral Coach Factory, Ordnance Factories.</td>
<td>Steel Authority of India Ltd., Bharat Heavy Electricals Ltd. (There are about 231 operating Central public enterprises as at 31.3.1989.)</td>
<td>Food Corporation of India, Indian Airlines Corporation, Damodar Vally Corporation</td>
<td></td>
</tr>
</tbody>
</table>
APPENDIX- 2.2

Industrial Policy Resolution, 1956

Schedule - A

1. Arms and ammunition and allied items of defence equipment;
2. Atomic energy;
3. Railway Transport;
4. Air transport;
5. Iron and steel;
6. Heavy castings and forgings of iron and steel;
7. Heavy plant and machinery required for iron and steel production, for mining, for machine tool manufacture and such other basic industries as may be specified by the Central Government;
8. Coal and lignite;
9. Heavy electrical plant including large hydraulic and steam turbine;
10. Mineral oils;
11. Mining of iron ore, manganese ore, chrome ore, gypsum, sulphur, gold and diamond;
12. Mining and processing of copper, lead, zinc, tin, molybdenum and wolfram;
13. Minerals specified in the Atomic Energy (Control of production and use) Order, 1953;
14. Aircraft;
15. Ship building;
16. Telephones and telephone cables, telegraph and wireless apparatus (excluding radio receiving sets);
17. Generation and distribution of electricity.

Schedule B

1. All other minerals except 'minor' minerals as defined in sec.3 of the Minerals Concession Rules, 1949;
2. Aluminia and other non-ferrous metals not included in Schedule A;
3. Machine tools;
4. Ferro-alloys and tool steels;
5. Basic and intermediate products required by chemicals industries such as manufacture of drugs, dyestuffs and plastics;
6. Antibiotics and other essential drugs;
7. Fertilisers;
8. Synthetic rubber;
9. Carbonisation of coal;
10. Chemical pulp;
11. Road transport;
12. Sea transport.

(These industries were the remaining twelve out of eighteen industries open to private enterprise under the IPR of 1948.)
Appendix-2.3

Public Sector’s contribution to Total Industrial Production

<table>
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<tr>
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</thead>
<tbody>
<tr>
<td><strong>Fuel</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coal</td>
<td>(M.T.)</td>
<td>71.40</td>
<td>200.89*</td>
<td>12.61</td>
<td>197.13*</td>
<td>17.66</td>
<td>98.13</td>
<td></td>
</tr>
<tr>
<td>Lignite</td>
<td></td>
<td>3.98</td>
<td>12.80</td>
<td>3.98</td>
<td>12.80</td>
<td>100.00</td>
<td>100.00</td>
<td></td>
</tr>
<tr>
<td>Petroleum</td>
<td></td>
<td>6.06</td>
<td>34.09</td>
<td>3.08</td>
<td>34.09</td>
<td>50.83</td>
<td>100.00</td>
<td></td>
</tr>
<tr>
<td><strong>Basic Metal Industries</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Steel Ingot</td>
<td></td>
<td>6.51</td>
<td>14.169**</td>
<td>3.72</td>
<td>6.269</td>
<td>57.14</td>
<td>58.36</td>
<td></td>
</tr>
<tr>
<td>Saleable Steel</td>
<td></td>
<td>4.70</td>
<td>12.606+</td>
<td>2.62</td>
<td>7.063</td>
<td>55.74</td>
<td>56.03</td>
<td></td>
</tr>
<tr>
<td><strong>Non-Ferrous Metals</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Aluminium (thousand)</td>
<td></td>
<td>125.3</td>
<td>427.11</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Copper</td>
<td>Tonnes</td>
<td>9.5</td>
<td>50.90</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Primary Lead</td>
<td></td>
<td>1.9</td>
<td>23.10</td>
<td>1.9</td>
<td>23.10</td>
<td>100.00</td>
<td>100.00</td>
<td></td>
</tr>
<tr>
<td>Zinc</td>
<td></td>
<td>17.0</td>
<td>75.22</td>
<td>13.7</td>
<td>65.00</td>
<td>80.59</td>
<td>86.41</td>
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<td><strong>Fertilizers</strong></td>
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<td></td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>Nitrogenous</td>
<td></td>
<td>543.0</td>
<td>6747.0</td>
<td>401.0</td>
<td>2888.0</td>
<td>73.85</td>
<td>42.80</td>
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<tr>
<td>Phosphatic</td>
<td></td>
<td>210.0</td>
<td>1796.0</td>
<td>53.0</td>
<td>440.0</td>
<td>25.24</td>
<td>24.50</td>
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<tr>
<td><strong>Communication equipment</strong></td>
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<tr>
<td>Electro-mech.(Teleprinters(No)</td>
<td>5012</td>
<td>2112</td>
<td>5012</td>
<td>2112</td>
<td>100.00</td>
<td>100.00</td>
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<td>Electronic teleprinters(Nos.)</td>
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<td></td>
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</tr>
</tbody>
</table>

* Includes CIL/SCCL/TISCO/HSCD/DVG. ** Includes Gujarat production. Includes production of ingots/concast billets by electric arc furnace units. + Includes production of secondary producers i.e. mini-steel plants and re-rollers.