

## CHAPTER - 6

### SUMMARY AND RECOMMENDATIONS

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6.1 It is true that any problem can be analysed in more than one way and it is perhaps more so with performance evaluation in public enterprises, since there are as many angles to the problem. In this study a view is taken that performance evaluation in public enterprises will be much more meaningful if the purpose of such an evaluation is primarily to identify the areas for further improvement and consequently that evaluation is to be carried out at an individual enterprise level.

6.2 It is also brought out clearly in this study that if serious attempts are made, it is possible not only to specify the objectives of an enterprise and fix up some suitable performance criteria, but also to combine the financial and non-financial performance to arrive at what is called an organisational index - a single, comprehensive performance indicator.

6.3 The role of a state in the economic affairs of its people is a debatable issue. However, almost all the newly independent countries, soon after gaining independence have realised that political independence only when coupled with economic independence would lead to complete freedom and have decided to accelerate their economic growth. Different countries have adopted different strategies to achieve this

goal of economic independence and one such strategy is the creation of public enterprises. Public enterprises are thus essentially the outcome of sheer necessity than any ideology in these countries and Indian public enterprises are no exception to this general rule.

6.4 Though, the concept of public enterprises, is more suited to the developing countries, the actual practice of the philosophy behind public enterprises is not limited to developing countries alone, but found in developed countries as well. The spread of public enterprises can be seen from the fact that the Federal Republic of Germany whose government is opposed to the concept of Nationalisation has still substantial investment in industry. Postal services are one sector that is in government hand irrespective of the policies and priorities pursued by any government. Countries like Canada, Japan and USA give a free hand to its private counterparts - especially in industrial sector. In contrast, countries like Austria and UK play a dominant role in their industry. In USA public enterprises are limited to special sectors in contrast to UK public enterprises which encompass all conventional sectors like, Coal, Transport, etc.<sup>1</sup>

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1. Infact, it is reported that by 1980 the share of these enterprises in the Gross Fixed Capital formation ranged from 4% in USA to 68% in Algeria; the average being 11% in developed countries and 27% in developing countries.

6.5 Though public enterprises have become a world wide phenomenon, different countries have given different emphasis on the role to be played and purposes to be served by these enterprises in their respective economies. For example, Pakistan favoured only infrastructural facilities to be under public category; Nepal opened up all industries except defence to private sector; Somalia built up both industry and infrastructure under public sector; Tanzania's aim is to control all critical means of production and prevent all kinds of exploitation among people; Thailand plays only a supportive role to its private industry; Argentina heavily leans on public enterprises for its economic growth; Sri Lanka entered all most all spheres of economic activity; Kenya leaves its economic matters primarily to private industry; Costa Rica gives equal weightage to both public and private enterprises; Ethiopia has no bars on private entrepreneurship; in Brazil, the growth of public enterprises was basically a matter of conveniences of the moment, rather than any previously formed policy; and so on.

6.6 In India though public enterprises were in existence as far back as in 300 B.C., it is the Indian Famine Commission (1878-80) and the Indian Industrial Commission (1916-18) recommendation on the need for the State's intervention in economic matter that eventually led to the constitution of a national Planning Committee (1937) and the

Department of Planning and Development (1944) that looked into this matter seriously. Later, the industrial policy resolutions of Government of India of 1948 and 1956 outlined the directions for the growth of public enterprises. In particular it is the 1956 resolution which adopted the 'Socialistic Pattern of Society' as the national objectives that spelt out the scope of public enterprises more clearly. The same philosophy and thinking was reflected in the industrial policy statements of 1973, 1977 and 1980.

6.7 Following these directions, public enterprises in India have grown in their number, in total capital employed, in the lines of manufacturing/service, and more so in their organisational and operational complexity. Today public enterprises cover 100% of the national production in respect of Petroleum, Lignite, Copper, and Lead; 97.6% of Coal, 75% of Steel, 88% of Zinc, 47% of Nitrogenous fertilisers and so on. The share of public enterprises in the total investment of the government has gone up from 46.40% during the first five plan period to 61.43% during the sixth five year plan. It is well-known that as much as Rs.180000 crores will be invested in this sector during the seventh five year plan. In fact the government recently announced that public sector will continue to play a dominant role in our economy.

6.8 Recently, however, public enterprises all over the world are caught up between two divergent concepts - namely attaining commanding heights (as everyone knows) and privatisation (about which there is so much talk).<sup>1</sup> Almost all developing countries have accepted that State should participate in their economic affairs so as to gain economic independence and thereby retain political independence. India assigned the role of a leader to public enterprises in the process of attaining commanding heights of the economy. On the other hand, the concept of privatisation of public enterprises is catching up all over the world. People who favour privatisation basically argue that public enterprises are inefficient by nature and thereby they eventually become a burden on the exchequer.

6.9 Notwithstanding the slogan of privatisation, public enterprises have come to stay and perhaps should continue to stay. To be more specific, public enterprises are required where:

- competitive markets do not exist

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1. Although the exact modalities through which such privatisation is sought to be achieved differ from country to country, it is reported that countries like UK, France, Japan, Pakistan, Bangla Dosh etc. have been very actively pursuing this policy of privatisation. Even in India the talk of privatisation is gaining momentum as can be seen in some of the ministerial speeches and the high level committee reports like Narasimham's Committee, Arjun Sengupta's Committee etc.

- private entrepreneurship is hard to come by
- socio-economic inequalities perturb the population
- the government needs to develop the basic infrastructure for accelerating the economic activity
- the government undertakes 'balanced regional development'<sup>1</sup> as a priority.

6.10 The pattern of Indian economic development during the past three and half decades has led to a phenomenal growth in assets and economic power of a few private industrial empires. It is also seen that a good number of erstwhile foreign companies have liquidated their equity and qualified for being treated as par with other Indian companies. In view of these developments, the capabilities of the private sector to undertake large investments has got considerably enhanced.<sup>2</sup> However, India cannot go for

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1. It then goes without saying that India, and for that matter, many a developing country, with their presently obtaining socio-economic conditions do need public enterprises. Looking at the private sector claim - that it is now in a better position to contribute to the national development, one can easily see their private interest in such a claim.
  2. Many of the limitations of the late 50s and 60s have disappeared. As a consequence of these developments, the private sector - particularly the monopoly capital - is aspiring to enter economic activities which were hitherto earmarked for exclusive development of the public enterprises. In addition, the Indian private sector gets easy financial support from banks and other financial institutions; and with options to involve foreign collaborators and receive direct loans from international agencies, it has been able to establish its claim for a change in the basic economic policy very successfully in the recent past.

such a change in its basic economic policy. India in fact cannot afford such a change in the present day context of socio-economic development, for the simple reason that a private entrepreneur, being a prudent businessman, always keeps his investment choices/options open.<sup>1</sup>

6.11 Privatisation of public enterprises is thus not the answer for their inefficiency; but the answer lies in improving the efficiency of these enterprises in general and of those enterprises which are incurring losses in specific. One way of improving their efficiency is to make them undergo a proper performance evaluation system which has the objective of identifying the areas for further development.

6.12 Performance evaluation in any organisation presupposes that there exists :

- Clarity on expected performance (objectives);
- Suitable evaluation criteria and
- Availability of data on actual performance.

6.12.1 Even in the absence of the basic pre-requisites, a number of attempts were made to evaluate the performance of public enterprises. These attempts were made both by some researchers and some governmental agencies.

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1. The sickness in the Indian textile industry is a good example of this phenomenon. The Jharia and Raniganj Coalfields still carry the scars of this so-called private initiative and entrepreneurship and India cannot afford not to learn from such experiences.

Though, all these are appreciable attempts, they do not deal with individual public enterprises - but club all these under one generic term 'Public enterprises'. Since each enterprise has its own objectives to be achieved and also as the size of the organisation, the location, the technology adopted, the product mix produced, etc. differ from unit to unit, performance evaluation if done at an individual enterprise level, will be much more meaningful. Secondly, most of these studies look at either financial profitability or social profitability as a measure of performance, as if they are contradictory to each other. In reality however, they are complimentary in the sense that financial success should enable an enterprise to fulfil its social obligations in a bigger way and the fulfilment of social obligations should pave a way for further financial success. As public enterprises are expected to achieve both these objectives, a total performance evaluation will be more meaningful. However, for a total performance evaluation, we need a mechanism through which both these seemingly conflicting performance parameters (financial and social) can be <sup>combined</sup> ~~continued~~ to a single performance indicator.

6.13 Performance evaluation cannot be taken as an absolute concept, which needs to be upheld for its own sake. Performance evaluation in its true sense is a means to an end and the end is improvement or betterment of

efficiency or performance. It is in this context that it becomes necessary to look into some of the issues that are special to public enterprises and some constraints that an evaluator faces while trying to develop a performance evaluation system.

6.14 The most important issue is with regard to performance evaluation in public enterprises as compared to that of private enterprises. Management ought to organise the enterprise activities so as to achieve the objectives of its owners - the government in public enterprises and shareholders in private enterprises. By way of an extension to this theme, there has always been the question as to whether performance evaluation system in public enterprises should be different from that of the private enterprises. However, it does not work out in actual practice, because the principal and unquestioned objective before a private enterprise is profit maximisation. Public enterprises pursue multiple objectives and profit is only a part of their overall aim - the country's socio-economic development.

6.15 Private enterprises operate in an environment where decisions are always taken within the enterprise and they always aim at a clear goal - the profit. Whereas in public enterprises decisions relating to pricing, investment, location, production, technology, appointment of chief executives and so on; are often taken outside the enterprise.

So the environment in which these enterprises operate often becomes a decisive factor in evaluating the performance of these enterprises.

6.16 The most important constraint in evaluating the performance of Public enterprises is the lack of objective specification. It is true that Public enterprises pursue multiple objectives. In fact they range from as simple as creation of more employment opportunities to as complex as rationalisation of socio-economic development of the country; model employer producer of capital goods and services, creator of infra-structural facilities, catalyst to further industrialisation; etc. being placed in between. By nature some of them are quantifiable, while the rest are qualitative; some of them are long term in nature and the rest are of short term; some of them are economic, ~~while some of them are economic,~~ while some of them are non-economic. This complexity makes it difficult to specify the objectives of these enterprises.

6.17 Further, the government does not appear to be interested in specifying the objectives of these enterprises. The reasons could be many. For instance, government may have many objectives for one enterprise - but does not know how to synthesise them; government may be afraid of criticism from one quarter or the other once objectives are specified and not achieved; government may fear that once objectives

are stipulated, managers may insist on the required autonomy for achieving them; or even some ministers may prefer not to specify the objectives so that their areas of intervention/interference can be wide enough.

6.18 Consequent to the non-specification of objectives, fixing up suitable performance evaluation criteria was never attempted in the case of public enterprises and this is the reason why the tussle between financial and social obligations continues even today. Secondly, even if objectives are specified - the issue that complicates the performance evaluation process is that of weightages to be given to each one of the performance parameters. Unless multi-dimensional optimisation models are used, this problem can not be solved.

6.19 Availability of data on actual performance in consistent form for several years, is another problem with evaluating the performance of these enterprises. If an insider were to carry out evaluation of an enterprise, he will have accessibility to all kinds of data. But for an outsider data availability becomes a handicap.

6.20 Considering the above - the the public enterprise environment, lack of specific objectives, lack of suitable performance criteria, non-availability of data on actual performance and so on; it can be said that the approaches or models to evaluate performance of public enterprises will have to be specific and suitable for the purpose.

6.21 While analysing the current practices of evaluating the performance of public enterprises, it is observed that some of them are purely theoretical and are not capable of being practised, atleast in the present circumstances in which Indian public enterprises are operating.<sup>1</sup>

6.22 There are some approaches which are being presently practised by different countries like UK, France, Pakistan, Argentina, Yugoslavia, Morocco, USSR, etc. However, even these are not found to be worth being emulated in other countries, since each one of them was developed to suit a particular country's needs and aims - as perceived by its government. For instance, the British system, through its notions like EFL (External Financial Limits) and RRR (Required Rate of Return), basically expects the British public enterprises not to become a burden on the treasury; the Yugoslavian system through its notions like personal consumption and collective consumption, basically aims at making the Yugoslavian public enterprises to earn enough to satisfy the worker's personal consumption (net personal income per worker) and the collective consumption (amount of collective consumption per worker); the Soviet system through its notions like General Profit and Accounting Profit, basically aims at making the Soviet public enterprises self-sufficient; the French and Senegal's system

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1. Breakeven approach, the total performance approach, the constrained output model, the OMEGA and SIGMA approaches, the total factor productivity approach, etc. are examples in this connection.

through their notions like a contract between enterprise and government aims at achieving clarity on what can be expected by government from an enterprise and by the enterprise from government, during the contract period; the Argentinian system through its notions like evaluation at  $X_2$ ,  $X_1$  and  $X_0$  levels basically tries to achieve homogeneity in planning and operations between government and enterprise; the Moroccan system through its notions like evaluation at government, enterprise, and citizen levels basically aims at making these enterprises operate on a commercial basis; the Pakistani system through its notions like public profitability basically aims, arriving at some sort of a socially adjusted rate of return.

6.23 In India the Performance of public enterprises is being evaluated by different agencies - of which the prominent ones are the Parliamentary Committee, the Audit Board and the Bureau of Public Enterprises. In a democratic country like India the Parliament in its representative capacity assumes the primary responsibility as well as authority to evaluate the performance of public enterprises. When public enterprises came on scene, the public Accounts Committee of the Parliament was entrusted with this function. This Committee usually examined the cases involving losses, wasteful expenditure and financial irregularities. It was soon recognised that this Committee

limited its examination largely to an ex-post criticism of expenditure and it failed to cover other important aspects of efficiency and economy and also the overall performance of public enterprises. An additional Committee called Estimates Committee was, therefore, set up. This Committee was given the responsibility of examining plans, estimates of investment and expenditure by public enterprises. However, both these Committees - the Public Accounts Committee and the Estimates Committee - found it difficult to allocate sufficient time and attention to the rapidly growing public enterprises. So a new Committee - the Committee on Public Undertakings - was set up to which the previous Committee's work in relation to public enterprises was transferred and was given the responsibility of a close watch on public enterprises. This Committee takes up a few public enterprises for a comprehensive study every year or a few issues that are common for public enterprises for an in-depth study or both. Till today, this Committee produced more than 200 major reports of which more than 100 are action taken reports.

6.24 Under the provisions of the Indian Companies Act public enterprises will have to get their accounts audited by an external auditor/statutory auditor. This audit is similar to any other non-governmental company's audit. However, the public enterprises coming under the purview

of Companies Act, will also have to get their accounts audited by the Comptroller & Auditor General of India. So far as the Corporations established under separate legislation are concerned, the powers of auditing have been conferred on the Comptroller & Auditor General of India for which he is assisted by audit boards. Additionally, the Comptroller & Auditor General prepares an annual 'review of performance' based on the 'efficiency audit' of public enterprises.

6.25 The best known performance evaluation of public enterprises in India is currently carried out by the Bureau of Public Enterprises.<sup>1</sup> Over the years the Bureau has greatly enhanced its coverage and presentation. It prepares its annual report based on the annual reports of individual public enterprises.

6.26 In addition to the evaluation carried out by the BPE, CAG and COPU; the Secretary of the concerned administrative ministry holds a performance review meeting

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1. The Bureau of Public Enterprises was given the responsibility of presenting a comprehensive picture of the ever growing public sector. The Bureau discharges this responsibility by preparing a comprehensive report on the working of the industrial and commercial undertakings of the Central Government every year. This report is popularly known as the BPE Annual Survey Report.

(PRM) every quarter with chief executives of individual public enterprises.<sup>1</sup>

6.27 Though this Indian system of performance evaluation tries to achieve everything from corporate planning to corrective action by the enterprise, in practice it merely amounts to operating a management information system.

6.28 This situation leaves enough scope for further conceptualisation and experimentation in the area of performance evaluation of public enterprises. Specifically a mechanism through which performance on both financial and social objectives can be combined to a single comprehensive performance indicator called "organisational index" becomes necessary.

6.29 Conceptually, performance evaluation can be taken as either a judgemental exercise or a managerial exercise.<sup>2</sup> Performance evaluation can serve three basic purposes - namely, as a tool to learn, as a tool to control and as a tool to motivate subordinates. So any system should be

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1. Where the BPE representative and the financial adviser of the Ministry are also present. In these meetings plans, targets and achievements are expected to be discussed. For this purpose, the BPE has designed an information system that gives details on physical performance, financial performance, progress made on projects under construction, etc. Recently, the BPE has also prepared a paper on 'Performance Aims and Financial Targets of Public Enterprises'.
  2. As a judgemental exercise it leads to either criticism or appreciation of the past operations. As a managerial exercise, it leads to identification of areas for betterment.

clearly aimed at serving either one or two or all the three purposes.<sup>1</sup> Performance evaluation can be of ~~control-related~~ factor performance or total performance - which includes the effects of policy choices and political judgements. Under the present circumstances only evaluation of ~~factor~~<sup>total</sup> performance is what is possible.

6.30 Keeping in mind the conceptual framework within which performance evaluation can be undertaken, the basic pre-requisites, the special circumstances of public enterprises, as well as what is practised in other countries, a new approach called 'An Organisational Index Approach' is developed.

6.31 So far as demonstrating the effectiveness of this new approach - the organisational index, is concerned, it is demonstrated in the case of Oil & Natural Gas Commission and Indian Petrochemicals Corporation Limited. One interesting feature that emerged while constructing the organisational index for both IPCL and ONGC was that the employees of both these public enterprises gave highest preference to 'Return on Investment' as a performance parameter in contrast to the popular belief that public enterprise employees are more worried about their

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1. Performance evaluation can be undertaken by an outsider or an insider. An outsider's evaluation will always be limited in its scope and accuracy, as he has to depend upon only published data; performance evaluation can be an elaborate system or a simple system and an elaborate system always runs the risk of not being implemented.

own welfare rather than the welfare of the organisation. The least preferred performance parameter was employment creation. In the case of IPCL, import substitution and improvement in technology have emerged as the areas for further improvement and, in the case of ONGC, inventory management emerged as a major area for further development.

6.32 The actions initiated by these two public enterprises (on their own and without any reference to this study or its findings) around the time of completing this study fully endorsed the use of organisational index in the sense that today IPCL's major thrust is on absorption and assimilation of technology and ONGC's declared thrust is on inventory control. In fact, today ONGC has made inventory management as part of the annual performance appraisal for all its managers.

6.33 It is hoped, therefore, that this organisational index approach to performance evaluation will be of use in attempting to improve the overall efficiency of all public enterprises all over the world.

6.34 Although the results of this study are substantial in terms of providing a more useful performance evaluation model for public enterprises, which can be made operative easily and universally, there is scope for further research

in this area.<sup>1</sup> The governmental agencies and the public enterprises themselves should be willing to provide all the data that is required on all possible performance criteria. This will make the construction of the organisational index not only easy but also comprehensive. In this connection, attempts can be made to identify all the possible performance criteria and consequently the data requirements on actual performance.

6.35 All performance criteria are not mutually exclusive. While the present model takes into consideration the performance of each of these criteria independently, it is possible to look at the inter-dependency of all these criteria through an exercise of goal programming. Thus, there is lot of scope for advanced research in this area - performance evaluation of public enterprises.

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1. It is possible to get weights to be assigned to the selected performance criteria not only from the employees of an enterprise as was done in this study, but also from all the interested parties like the administrative ministry, the consumers, the suppliers and the general public so as to arrive at a more comprehensive weighted average weights of all performance criteria. Such an attempt would certainly enhance the validity and usefulness of the organisational index approach in evaluating the performance of a public enterprise.