<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.1</td>
<td>Introductory Remarks</td>
<td>201</td>
</tr>
<tr>
<td>6.2</td>
<td>Statement Of The Problem</td>
<td>201</td>
</tr>
<tr>
<td>6.3</td>
<td>Methodology</td>
<td>203</td>
</tr>
<tr>
<td>6.4</td>
<td>Objectives Of The Study</td>
<td>203</td>
</tr>
<tr>
<td>6.5</td>
<td>Testing Of Hypotheses</td>
<td>209</td>
</tr>
</tbody>
</table>

200
CHAPTER 6
SUMMARY, CONCLUSIONS AND SUGGESTIONS

6.1. INTRODUCTORY REMARKS

In the earlier chapters an attempt is made to discover a pattern in the working of Central Public Enterprises. In the first chapter, after enumerating the broad objectives of the study, a statement of problem and the methodology of research work is given. The second chapter is devoted to the theoretical framework and the factual data about the present state of central PEs and their environment. The third chapter contains macro-level analysis of the performance and the problems of PEs as a group. The fourth and the fifth chapters are devoted to comparative studies of two Fertiliser PEs and two Pharmaceutical PEs respectively.

In the present chapter the researcher proposes to sum up the findings and to see how far the objectives of the research are being fulfilled. Hypothesis testing is another object of the present chapter. While doing this conclusions drawn on the basis of the macro-level analysis are being compared with the findings of the case studies wherever possible. An attempt is also being made to decide the factors responsible for the financial results of PEs covered in the case studies. Broad conclusions and recommendations have been presented which can be useful for formulation of policy measures.

6.2. STATEMENT OF THE PROBLEM

The share of PEs in the gross domestic product, gross domestic savings and gross domestic capital-formation has increased considerably during 1950/51 to 1991/92. In spite of the quantitative growth, there has been a general opinion among the elite against the expansion of the public sector mainly due to the inefficiencies taken to be inherent in the PEs. That way people, who often opine on the subject, can be categorised in several groups, out of which the group of political executives responsible for PEs and that of experts and economists are the concern of the present research. Shri Vasant Sathe, the representative of the group of political leaders had concluded in 1986 that due to wrong interpretation of the concept of socialism, PEs were allowed to grow in spite of their unsatisfactory performance, resulting into stagnation of the economy. (Times Of India 4th, 5th, 6th August 1986, cf. Chapter 1)

Though there is no unanimity amongst the experts, objective type of criticism by a few can not be overlooked. They had concluded that since public enterprises accounted for a lion's share in the total investment of the economy, there seem to be a close connection between the falling rate of economic growth and the deteriorating performance of PEs. (Bhagwati Jagdish, Desai Padma, 1972. Brahmanand P. R. 1982, cf. Chapter 1) They thought that the problem of
management needed to be tackled on war footing. Another group had opined that the profitability of PEs as a group was a shade better than that of private enterprise in 1986/87 and 1988/89. (Sankar T. L., Sai SST ‘Private and Public Sector During 1986/87, 1988/89.’ IPE Journal December 1990). But the method followed by these economists for restructuring the data (to make the data comparable) was not free from bias.

Because of such difference of opinions and because of criticisms by political leaders in power, two questions can be raised:

1. How the differences in conclusions drawn from different studies can be explained?
   If they are attributable to differences in methods, time-periods or personal biases, there is a need for an unbiased, objective study covering a reliably long period and based on available authentic data.

2. If most of the people, including those who are responsible for PEs and PE policies, accept the situation to be unsatisfactory, then why the ailments of PEs are not removed?
   There might not have been sufficient efforts to remove the known lacuna or the measures used so far might not have been effective or both. Intensification of efforts and/or a search for alternative measures thus become inevitable. Hence the purpose of the present study is to go into the causes of the alleged inefficiencies and failures of PEs. The hurdles that have been holding back the policy makers from taking timely action and effective steps are also being considered.

6.3. METHODOLOGY

Hypotheses:

- There is something seriously wrong in the working of PEs. Discouraging financial results are not wholly attributable to the social obligations imposed on them.
- All profit making PEs are not necessarily efficient and all loss making PEs are not necessarily mismanaged.
- There is ample scope for improvement in the managerial practices of PEs, but reforms can be implemented provided the number of PEs is reduced to the manageable minimum.
- The Government and the managements are aware of the ailments, but are not in a position to bring about necessary improvements in the existing set up.
- Privatisation does not automatically ensure improvement in efficiency or profitability unless there is a strong group of experienced share holders, which will take active interest in the management and safeguard the part-owners’ interest.

The first three hypotheses stand verified and valid. The last two stand unverified because of the short span to judge the impact of changed environment.
Scope and coverage:
The period of study is from 1966/67 to 1991/92. All the PEs which are registered under the Companies Act and the Statutory Corporations are included in the study.

Research Design and Techniques:
The researcher has mainly relied on the secondary data; sources of data being Government publications, reports of committees/commissions and the annual reports of PEs.

Cross-sectional data are used for arriving at general conclusions. By treating horizontal COPU reports as reference points, improvement in the managerial framework and practices is assessed at five years interval from the year of that particular horizontal report. The time series data on important indicators are presented.

For case studies, two PEs from two sectors are chosen for comparison. Due to non-co-operation from the private company the study had to be restricted to PEs only, leaving aside the initial intention of using a comparable private unit as a control group. Since the main aim was to examine the relative impact of the management on financial results, those PEs that matched on all other norms except the norm of financial results had to be selected. After studying financial results of all PEs for five consecutive years, eight pairs of comparable PEs were short listed. For making the final choice two criteria were considered, a) Availability of COPU reports, b) Availability of a comparable private enterprise. Due to non-co-operation of concerned management /Ministry to furnish primary data, the researcher had to rely on unofficial sources wherever possible.

6.4. OBJECTIVES OF THE STUDY

Objectives of the study are stated at the beginning of the first chapter, most of which have been fulfilled.

The first objective was to go into the causes of the unsatisfactory performance. The conclusion regarding the performance can be summarised thus:

⇒ Biased and irrational / wrong initial decision in the pre-production stage.
⇒ Ever-changing emphasis by the Government on different macro-objectives depending on the need of the economy at that particular time.
⇒ Over-expansion of the public sector, which made the monitoring system ineffective.
⇒ Lengthy procedures of getting approvals from the Ministry.
⇒ Tendencies of PEs to pass over their inherent inefficiencies to upstream and downstream sectors, thereby negating the advantages that would have been secured through backward and forward linkages.
⇒ Tendencies of PEs to patronise each other’s inefficiencies and pass on the buck.
⇒ Reluctance on the part of the Government to take timely decisions, especially if they are likely to cause social / political unpleasantness.
⇒ Over-manning in PEs, mainly because of feather bedding.
⇒ Pressure tactics of the strong group of ever-demanding organised labour in PEs coupled with lenient attitude of the Government / political leaders towards them.
⇒ Lack of professionalism, ignorance and inexperience in the first two decades.
⇒ Stickiness of administered prices in the midst of high inflationary pressures in the economy.
⇒ Lack of motivation at all levels from Ministry through bureaucrats to the workers.
⇒ Lack of clarity in fixing the responsibility and defining accountability.
⇒ Failure to state the objectives of individual PEs in unambiguous words.

All these observations made on the basis of macro - level study were corroborated by the findings of the case studies.

Second objective was to establish relationship between the managerial practices and financial results.

Working of the profit making PEs from the candidates of the case studies have shown some points of similarity. The managerial practices of the profit making PEs were found to be superior in almost all areas of management to those followed by their counterparts in the same sector. Hence, there is definitely a direct relationship between the managerial practices and financial results. RCF and HAL have shown ability and willingness to improve their practices and performance. Following conclusions can be drawn on the basis of the comparative study:

* Possibility of better operational, managerial performance and financial success is more in case of single-unit enterprises: A general belief that a running concern can handle similar activities better than a new enterprise has been proved invalid in case of Indian PEs.
* Possibility of better operational efficiency and financial success is more in case of those multi-unit PEs which have all their units in close vicinity of the corporate office and of each other.
* Possibility of success of multi-unit PEs increases if the expansion is gradual and planned. If the plants at different locations have emerged out of long-term corporate plan of a successful experienced PE, the chances of success are more. HAL and RCF could set up and run their plants successfully because the younger plants got the advantage of the experience gained in the earlier years. Plants under IDPL could not get this advantage because they were set up simultaneously in different regions away from the corporate office.
* Chances of success are more if the PE is set up in an industrially advanced state. RCF and HAL are located in the state Maharashtra which is industrially advanced. Hence they could get the benefit of the industrial environment around them.
Quantifiable and direct locational disadvantages of a PE located in a backward state / region seem to be comparatively less than the indirect handicaps. Technical and managerial talent, trained and disciplined labour, proximity of private industrial concerns, network of communication and transportation facilities, law and order situation, alternative sources of inputs etc. are some of the indirect advantages that a PE situated in an industrially advanced state can have. Both HAL and RCF might have enjoyed these additional indirect benefits, whereas IDPL (Rishi), HFC (Namrup, Barauni) were deprived of many of these externalities.

- Geographical distance between the corporate office of a PE and New Delhi is also found to be one of the factors responsible for success. PE-managements prefer to be in the proximity of the administrative ministry, because that gives them better accessibility to the Ministry. But soon easy accessibility often leads to formation of interest groups, which safeguard vested interests of the group at the cost of the PE. Inefficiencies are allowed to continue probably because of the inter-personal relationships. Scope for Government intervention is greater if the corporate office is situated near New Delhi. The managements get greater autonomy sheerly because of the geographical distance, if not for anything else.

HAL and RCF have their corporate offices in Pune and Mumbai, while HFC has its office in Delhi. The corporate office of IDPL was in Delhi for quite a long time, it was later shifted to Gurgaon.

- Geographical distance between the corporate office and the constituent units may also be a deciding factor. While proximity between the Ministry and the corporate office of a PE seems to have adverse effects on the working of the PE, opposite seems to true about proximity between the corporate office and the constituent units. A close and regular inspection over all units and prompt decision making is rendered easy when corporate office is in the vicinity of the plants. Hence the possibility of success seems to be more if the corporate office of a PE is geographically close to the units under it.

- There were periods in the lives of HAL and RCF when the working of these companies was at a low ebb; but the managements showed courage, will and ability to turn around. As a rule the managements of PEs are assumed to be less motivated due to defective / ineffective incentive / disincentive schemes. HAL and RCF are not likely to be exceptions to this rule. Hence there has to be some explanation for the better motivational force shown by the managements of HAL and RCF.

The researcher wishes to maintain that in addition to greater autonomy (in practice) and environmental advantages, close contacts and interaction with the private corporate companies might have helped these managements to absorb their culture. Success or failure of the company has probably become prestige issue for them.

Hence co-existence of private and public corporate companies is likely to ensure better chances of success for a PE.
This will partly explain why the Madras unit and the Hyderabad unit of IDPL have not shown better performance, though they are situated in advanced states. Though the units are situated in Tamil Nadu and Andhra Pradesh, the corporate office has been at / near New Delhi, where private companies rarely have their corporate offices.

Since the loss making included in the case studies have shown no tendency to learn and since their losses are not wholly attributable to factors outside the control of PE managements, the researcher has no hesitation in recommending following measures to deal with HFC and IDPL.

**HFC:**

♦ The units/organisations of HFC should be disintegrated according to the jobs they perform / locations. Fertiliser promotion work may be allowed to continue under the category XXV enterprises under the Companies Act.

♦ Assets of the remaining units / organisations should be sold after a realistic evaluation by an impartial agency. OR

♦ Sick plants should be sold to private parties who are interested in running them, with three precautions:
  1) Revaluation of assets by an impartial agency.
  2) An assurance from the private party in the form of a clause in the agreement to the effect that the enterprise should run for a minimum prescribed period with a penal clause for not fulfilling this condition.
  3) Sale agreement should not have conditions or ties regarding factors other than the volume of output, price and obligation about environmental balance.

Efficiency of medium and small scale ammonia plants was found to be comparable to that of the large plants. The private entrepreneurs / companies are likely to be attracted to the fertiliser sector and hence there is no need for the Government to set up new fertiliser plants requiring large capital outlays.

Medium and small plants require lower financial outlay, have a shorter gestation period, and get opportunities for experimentation with new fertiliser products. Modern technology can be utilised for the small / medium plants. (Source: FAI Seminar on Growth And Modernisation of Fertiliser Industry, 1986)

**IDPL:**

Chances of IDPL's revival are more if following steps are taken:

- Separating three plants from each other.
- Selling out the Madras plant to a private party after impartial evaluation of the assets and without putting obligations on the purchaser regarding employee absorption. OR
- Leasing out plants for a fixed period to private parties after putting conditions regarding minimum quantity and quality of certain drugs and maximum price level.
The third objective was to examine the factors responsible for non-implementation of accepted recommendations.

At the Government level two major reasons can be traced:

- Due to a large number of PEs the exercise has become unwieldy and unmanageable.
- Lack of political will on the part of the concerned Ministries and their apathetic attitude towards accepted recommendations is evident from innumerable instances. This is mainly because of the failure to extend the incentive/disincentive schemes to the Ministry level.

At the PE level following factors are responsible for non-implementation:

- Ambiguity regarding the mandatory and advisory nature of guidelines.
- Absence of an agency to check that the accepted guidelines are being implemented by PEs.
- Absence of any provision for penal action for non-implementation.

The fourth objective was to examine whether the PEs / Government has learnt from the past experience.

The Government has certainly shown willingness and ability to learn from the past experience. Major reforms and macro-decisions in the later period are based on the valuable recommendations of various committees. Though there are many instances of inconsistency in the Government’s decisions (mainly due to some non-economic considerations), on the whole the Government has learnt from the mistakes. But the process has been painfully slow. Changing policies of the Government have been the logical outcome of the learning process.

The weakest area has been the implementation part. Though the Government has learnt lessons, it could not make PEs abide by the reformed practices, either because of miscommunication or because of the optional nature of even apparently regulatory type of recommendations.

At micro-level those managements have been able to turn around / give favourable financial results and to develop sound managerial practices which have shown inclination and ability to learn. Examples of HAL and RCF are concrete proofs of the fact.

Due to the general tendency of PE managements and to a certain extent of the Administrative Ministries not to implement the reforms, need for a new approach is felt. The Government cannot take timely actions on certain vital matters because the corrective measures are bound to displease a large section of organised labour in particular and public in general. So long as there is Parliamentary Democracy in India (and it has come to stay here) the chances of
prompt decisions/actions and speedy improvement in PE performance are remote. Approximately for 40 years the Government has tried the method of close monitoring and coaxing without much success.

The Government has already principally accepted and implemented the new approach in a moderate way. Policy of liberalisation and partial privatisation are some concrete steps in the direction of new approach. The researcher would like to suggest some additional measures to reinforce it:

- The reduction in the number of PEs, number of controls and the volume of Government - PE communication.
- Clear cut distinction between the mandatory and advisory (optional) guidelines.
- Keeping the number of mandatory guidelines at a minimum level.
- Making official directors and the Ministers directly responsible for the implementation of mandatory guidelines.
- Different approach to advisory guidelines is necessary.

Aim of the advisory guidelines is to improve managerial efficiency and to increase professionalism. These results can better be achieved by adopting following measures:

- In the immediate future all posts of CMDs and non-Official, non-Functional Directors should be filled with professionals of proven expertise.
- IIMs /management institutes should be asked to run courses for the existing managerial personnel. Instead of BPE arranging for such courses, specialised institutions would be in a better position to do so.
- For new entrants in PE managerial cadre, full fledged degree/diploma courses from recognised management schools should be made compulsory qualification.
- There should not be separate management institutes for PE managers. They should get an opportunity to learn all commercial practices meant for the managers in the private sector. If PEs are expected to absorb sound business culture, they should not be deprived of general training in management institutes and of an opportunity to be in the main stream of corporate managers. bifurcation of this nature would inculcate different culture in PEs.
- Since PEs have their particular features persons desirous to join PEs should be obliged to offer special optional course on 'History of PE management in India'.
- BPE has gained experience in managerial problems of PEs. If instead of issuing advisory guidelines they are allowed and encouraged to offer consultancy services to PEs, their knowledge and experience is likely to be utilised in a more effective manner, because in such a case, the initiative to solve problems would be from the PEs.

Government's efforts to tackle sick PEs as well as healthy PEs need much more determination and promptness. Hence the researcher would like to suggest that these efforts are sure to fetch immediate end results if the Government will concentrate on the following categories of PEs:

a) Top ten PEs according to the volume of the capital.
b) Top ten profit leaders.
c) Top ten loss making PEs.

Since category “a)” accounted for 64.55 % of total profits and category “b)” accounted for 57.61 % of total profits and category “c)” accounted for 67.88 % of total losses (in 1991/92) intensive efforts with a package of reforms to these PEs will lead to maximisation of profits and minimisation of losses in a short time-capsule. Experiences gained from these efforts can be used in case of other PEs as and when administrative formalities are completed.

6.5. TESTING OF HYPOTHESES

The researcher has stated five hypotheses which are being tested categorically in this section.

**Hypothesis 1:**

*There is something seriously wrong in the working of PEs. Discouraging financial results are not wholly attributable to the social obligations imposed on them.*

Individual COPU reports studied in the 3rd Chapter and the case studies have provided sufficient data to conclude that managerial framework and practices have not been satisfactory in PEs. Conclusions of the 4th and 5th chapter prove that the management practices of the loss incurring PEs of the fertilizer and the pharmaceutical sectors have been inferior to those followed by profit-making PEs. In almost all areas of operation from project-formulation to marketing their counterparts have shown better performance than HFC and IDPL.

Both the profit-making PEs had a bad patch and that bad patch was due to managerial inadequacies to a large extent. Hence there is a relation between the financial results and the quality of management.

Another way of testing this hypothesis is by testing specific social obligations and their impact on the financial results.

There are four important social obligations which might have affected the financial results. They have imposed financial burden on the PEs; but they do not explain why some enterprises from the same sector could earn profits in spite of the same obligations.

Major social obligations having impact on PEs are as follows:

1. To promote balanced regional growth
2. To create employment
3. To consider certain categories of people preferable for employment and reserve prescribed percentage of posts for them
4. To provide essential commodities at a reasonable/affordable price to the public.
The impact of the first social obligation can be tested by comparing the performance of the units located in the backward areas with those located in the developed areas and working under the same management.

**Examples:**

A plant at Namrup or Barauni had locational disadvantage because of backward status of the states of Assam and Bihar respectively. But Durgapur plant and the Haldia plant are situated in the state of West Bengal. They have not shown better performance than the Namrup and Barauni plants. In fact, Namrup I was the only plant under HFC which had declared its production as 'stabilized' in 1979/80 and Namrup III is the plant showing better capacity utilisation than its sister-plants. Haldia plant is a still-born plant. Hence adverse financial results of HFC are not because of locational disadvantages of Namrup and Barauni only.

Another example can be cited. Two main plants of IDPL out of three are situated in the advanced states of Tamil Nadu and Andhra Pradesh. Only Rishikesh plant is located in the backward state of U.P., but all the three plants incur losses. Similarly, formulation plant at Gurgaon (Haryana) has not shown better operational or financial performance than the plant at Muzaffarpur (Bihar).

Therefore one can safely conclude that this obligation has not been fully responsible for the unsatisfactory performance of the two loss-making PEs included in the case-studies. But at the same time it should be remembered that both the profit-making PEs in the case studies, do not have plants/offices in the backward region.

Obligation 2, regarding creation of employment, cannot be said to be a compulsory condition imposed on individual PEs. In no case was any PE asked explicitly or implicitly to employ persons more than its actual requirements. Instead, PEs were asked to set up industrial-engineering cells or to use consultancy services of industrial engineering consultants to work out job specifications and manpower requirements. Hence omnipresent problem of over-manning is not the outcome of any social obligation, but due to lack of awareness and carelessness of PE-managements in the field of manpower planning.

**Examples:**

In case of HFC, manpower requirements were worked out by NITIE for the Barauni plant, but similar studies were not conducted for other plants/units.

Similarly in case of IDPL manpower requirements for technical personnel were worked out, but no study was conducted for non-technical staff in the Hyderabad plant. Sister plants under IDPL were not required to undertake similar exercise, hence their manpower requirements were decided arbitrarily.
There can not be any other explanation than negligence and apathy on the part of the management. Even after identifying the problem and calculating the extent of over-manning, the PE-managements have not been able to cut down employment to required size due to the pressure-tactics of the trade-unions and political pressure from the local leaders. The hidden reasons are thus 'social pressure' and 'political pressure' instead of social obligation.

Example:
Though Haldia project has not been commissioned as yet, the trade unions and the Labour Ministry of West Bengal have been successful in maintaining the work-force and claiming 'over-time allowances'.

Third social obligation regarding the reservation policy has not been responsible for deterioration of performance of PEs. It is evident from conclusion 3.7 that percentage of SC/ST category in the total employment has been too insignificant so as to affect the quality of performance. But reservation policy has come in the way of manpower rationalisation programme of many PEs. This has indirectly affected the financial results. The managements are not left with any choice but to give jobs to persons under certain categories.

Examples:
Case of Eastern Coalfield Ltd. can be cited here. In spite of over-manning problem, the management had to employ new personnel according to Government Directive to employ dependents of the persons who died when on duty or dependents of employees declared invalid before retirement or person displaced because of land-acquisition. (cf. Chapter 4 para)

Another example of HFC confirms this implication. The management had to recruit 912 persons during 1986 to 1990 in order to fulfil this obligation though Haldia plant had not commenced production. (cf. Chapter 4, Para)

Obligation 4 has come in the way of financial profitability due to stickiness of administered prices. Managements of all the four PEs covered in the case studies have complained about the time-lag between the date of application for price-revision and the Government decision regarding the revision, during which period PEs continue to bear losses caused by the price escalation of inputs.

But following two things need attention:
- In spite of administered prices, one PE from each pair could earn profits.
- Even in case of profit-making PEs, one does not come across a well-planned, time-bound programme for targeted cost-reduction, which suggests that such a social obligation kills the motivation to earn profits through cost-reduction.

Thus there is no proof to support that the financial burden borne by PEs due to social obligations is equivalent to the losses made by PEs. Financial losses of loss-making PEs seem
List of References

1. Coverage by COPU:
   IDPL - 22nd Report 3rd Lok Sabha.
   46th R 4th L.S.
   56th R. 5th L.S.
   29th R. 8th L.S.
   HAL - 80th R. 5th L.S.
   67th R. 7th L.S.


3. The researcher selected these PEs on the basis of financial results during this period because 1991/92 was the latest BPE report available at the time of selection. However, HAL has incurred a loss of Rs. 12.68 crores in 1993/94.


5. PP 6,7, Para 3.2 Committee On Public Undertakings 46th Report 5th Lok Sabha.


8. Approval and release of funds by the Ministry bottlenecks in the economy had to play a significant role for which no concrete data is available.

9. In 1972 Rishikesh plant accounted for 44.5%, 34.4% and 88.8% of country's licensed capacity for penicillin, streptomycin and tetracycline respectively.


11. P 25 Ibid.

12. P 7 Ibid.


14. cf. Para 5.3. Statement of initial objectives on earlier page under the sub-title 'Historical Background'

15. Pg. 29, Action Taken Report Committee On Public Undertakings, 38th Report, 8th Lok Sabha.

16. cf. Appendix 3.1, item 1. This case has been quoted by the Economic Administration Reforms Commission in their 7th Report.
greater than the burden. The case-studies reveal that the loss-making PEs were thoroughly mismanaged and their failure is due to intrinsic deficiencies rather than social obligations.

There is a concrete example of the tendency of PE-managements to hide behind the shield of ‘social obligation’ in order to conceal/justify their un-business-like decisions and inability to promote their own products.

**Example** :
Decision taken by IDPL and HAL to use moderate share of bulk-drugs for captive consumption was not based on the social obligation to provide intermediates/bulk-drugs to the licensed formulators as was claimed by them. It was because of their inability to sell their formulations and to ensure regular supply of vials/empty capsules that they had to sell bulk-drugs to the private formulators. This instance confirms that PE-managements tend to use the ‘social obligations’ as a pretext to justify managerial failures.

**Hypothesis 2**

All profit-making PEs are not necessarily efficient and all loss-making PEs are not necessarily mismanaged.

This hypothesis implies that the profits / losses of PEs are deceptive and do not always indicate operational efficiency or its absence. Hence ‘profit’ or ‘loss’ can not be considered as a reliable indicator of operational efficiency. This is because of two conditions in which PEs generally operate viz. administered prices and monopolistic market.

Following combinations are possible. :

**Profit-making PEs**

i) Actual price = normal price ; Actual cost = minimum cost
ii) Actual price > normal price ; Actual cost = minimum cost
iii) Actual price = normal price ; Actual cost > minimum cost
iv) Actual price > normal price ; Actual cost > minimum cost

**Loss-making PEs**

i) Normal price > Actual price < Actual cost = minimum cost
ii) Normal price = Actual price < Actual cost > minimum cost
iii) Normal price > Actual price < Actual cost > minimum cost
iv) Normal price < Actual price < Actual cost > minimum cost

In case of profit-making PEs if the PE belongs to the first category, it can be considered as an efficient PE. Efficiency of a PE diminishes successively as one goes from category I to the next categories. Similarly, in case of loss-making PEs, PE in the first category can not be called inefficient and inefficiency increases successively from category I to the next categories.
Case-study suggests that HAL went through four stages. They were as follows:

**First stage (1961/62 to 1972/73):** HAL was making profit. It had monopoly in the bulk-drug market, but the prices were kept almost near normal price. Share of bulk drugs in total sales was much greater than formulations. For formulations, HAL had a captured market and price-preference. The benefits which HAL could derive due to the captured market were cost-reduction due to better capacity-utilisation and negligible volume of marketing cost. As against that, captured market was disadvantageous because of the minimum average period for recovery of bills which was almost 3 months. This resulted into blocking of working-capital. Post-facto analysis by COPU suggests that there was some scope for cost-reduction by better performance. Therefore HAL belonged to category III during this period.

**Second stage (1973/74 to 1982/83):** HAL incurred losses. Share of bulk-drugs in total sales was reduced and that of formulation increased. Prices were kept below normal price and were frozen for some time. Post-facto analysis suggests that during this period operational efficiency was low mainly because of failure of new drugs. Hence HAL belonged to category III of the loss-making PEs.

**Third stage (1982/83 to 1986/87):** Percentage share of bulk-drugs in total sales was further reduced, share of formulation was increased but in addition percentage share of ‘trade’ was also increased. Prices were allowed to be revised and Government granted moratorium and interest-holiday during the period. Still the company was making losses. HAL still belonged to category III and the improvement in the operational practices were not revealed from the financial results.

Thus, though there was a difference in the working of HAL in second and third stages and though it belonged to the same category, there was difference in the operational efficiency in these two periods; which was left concealed.

**Fourth stage (1987/88 to 1991/92):** HAL made profits, entered trade (competitive market) in a moderate way. In this stage HAL belonged to category I because actual cost was equivalent almost to minimum cost and actual price was allowed to hover the normal price. There is a difference between the first stage and the fourth stage which is not evident from the financial results.

In case of IDPL also share of bulk-drugs has been greater where the company has a monopoly (along with HAL) and share of formulations in total sales has been smaller wherein IDPL is having Captive market and a price preference. For most of the years, IDPL has been in the category IV of the loss-making PEs.

IDPL made moderate profit during 1974/75 to 1978/79. The company which incurred losses till 1973 and whose paid up capital was completely wiped out in 1973, started showing profit in 1974. It was due to the moratorium granted for 4 years, interest-free working capital and a waiver to penal and compound interest that the company could show profits. This category of profit-making PE is the most deceptive one. Though both HAL and IDPL made profits during
same period, there is no similarity in the factors responsible for the profits. These differences are camouflaged because of similarity in the financial results.

In conclusion, it can be said that the financial results can be deceptive in more than one ways.
- Profits may hide inefficiencies which come to surface after a time lag.
- Net profit can be a short-term phenomenon as an effect of financial arrangements made by a budgetary support in the earlier period.
- A profit-making PE can simultaneously carry accumulated losses over the years which do not tell upon the current financial results due to a provision to seclude accumulated deficit (cf. Con. 5.25)

Parallel to the case of IDPL (during 1974/75 to 1978/79) fifth category of loss-making PE (peculiar to PEs) is observed in case of RCF (during 1992/93, 1993/94); RCF has shown losses during 1992/93, 1993/94, but they were due to the Kuwaiti loan diverted by the Government of India to other activities whose burden increased because of increased exchanged rate of Dinar.

Profits of PEs have shown another tendency in the recent years. The improvement in the financial results in recent years is not due to improvement in the operational efficiency, but due to income gained from sources other than the main line of activity which may be either a sale of assets or interest on investments made elsewhere. For 1990/91 and 1991/92 gain from operations has been negative for the whole group of PEs (cf. Con. 3.9)

RCF case is an example to the point. Since 1986/87 the component of 'other-income' in total income has been partly responsible for increasing net profit. In 1991/92 'other income' was greater than the net profit (cf. Con. 4.21). So the profit during these years concealed increasing cost of sales (cost of production + marketing costs) and possible inefficiency.

HFC has always been in the category (III) or (IV) of the loss-making PEs. There is not a single fact which would suggest any improvement in operational efficiency. But a considerable share of HFC's losses is attributable to wrong initial decisions and inequitable distribution at the time of reorganisation of FCI (cf. Ob. 4.2.)

Thus the second hypothesis also stands verified.

**Hypothesis 3**

*There is ample scope for improvement in the managerial practices of PEs, but reforms can be implemented, provided the number of PEs is reduced to the manageable minimum.*

Due to the fast quantitative growth of the PEs problems of co-ordination, regulation and monitoring were aggravated. Certain Administrative Department/Ministries are over-burdened with a large number of PEs (cf. Ob. 2.3). It has also adversely affected the efficiency of
Government agencies concerned with PEs working (PESB, BPE [now DPE], PIB, EFC and COPU). All these agencies which were created to advice, evaluate, monitor and regulate PEs for qualitative improvement in the performance and practices of PEs are over-burdened. They have shown tendency towards top-heavy composition with resultant bureaucratisation. Hence this elaborate, multi-agency monitoring system has become ineffective (cf. Ob. 2.18). If the efforts at quality improvement are to be effective and meaningful, the number of PEs and the areas of Government interference need to be reduced.

Cases before EFC and PIB have to wait in a queue for the approval. Many PEs remain topless because PESB takes longer time for selection and stopgap arrangements are continued for a prolonged period. Example of HFC can be quoted here. COPU has been able to cover only 79 PEs by individual in-depth study out of 237 PEs till 1991/92.

In case of PEs covered by the COPU recommendations remain unimplemented and same recommendations keep on appearing in successive reports. The whole exercise of evaluation and circulation of guidelines by the Ministries becomes meaningless because of non-implementation. There are more than adequate indications to show that the Government has not been satisfactorily performing its duties regarding the PEs. Issues which are strictly and completely under the consideration of the Government are left pending without any apparent reason. Reluctance on the part of the Government to take any decision about the still-born Haldia project can be cited as a representative example.

Instances of negligence/apathetic approach of the Government/PEs are ample which could have been reduced, if not avoided, if the number of PEs was restricted. Hence, the third hypothesis stands valid.

It is not the prime function of any Ministry to run a business organisation. If at all Ministries have to perform this function, it would be wise to let it remain at a minimum level. Restriction on the number of PEs does not automatically ensure better administrative management but it would be a vital precondition for introducing reforms.

**Hypothesis 4**

The Government and the managements are aware of the ailments, but are not in a position to bring about necessary improvements in the existing set-up.

Various Committees/Commissions/COPU have been identifying problems of PEs. BPE has been circulating guidelines to the Ministries who in turn are informing PEs under them about the guidelines through office-memoranda and manuals. The selection of the managerial staff in PEs is made on all-India level. Hence the managerial personnel have to be as capable as their counterparts in the private sector. So, it is not the ignorance about the existence of problems that is holding back managements / the Government from improving performance.
The term ‘existing Set-up’ includes following conditions.

- Restricted autonomy.
- Lack of motivation due to defective/inadequate incentive/disincentive schemes.
- Obligation to give preference to other PEs.
- Lack of competition from domestic companies and multi-nationals.
- PEs which do not have to face any one or more conditions have shown better results.

For example, remoteness from New Delhi has helped the PEs in maintaining autonomy regarding the routine matters. RCF and HAL are located away from New Delhi. Due to geographical distance from the capital, it has become difficult for the Ministry and the Ministerial staff to over-monitor these companies. It must have also become difficult for the top-level managements to indulge in personal relationships with the Ministerial staff/politicians. There is strong ground to believe that geographical distance from New Delhi has been one of the important reasons for the better performance of these two PEs.

MOU system is being used on an increasing scale to remove the first and the second element of the existing set up. According to the latest DPE report (1994/95), more weightage is being now given to the top-management along with financial results in the evaluatory scale. Performance awards to PEs is another attempt to increase motivation of top-management. It is too early to conclude about the impact of these incentives.

But there has not been any attempt to extend this incentive scheme to Ministerial level. The system does not provide for disincentives for non-attainment of end-results. Since Minister/Ministry acts as the top-level management, the incentive/disincentive schemes must include them also. Attempts at introducing incentive schemes at subsequent levels have been ineffective due to fear of deployment.

The third element of the set-up was obligation to give preference/price-preference to other PEs. This obligation has been equally harmful for healthy and weaker PEs where they are purchasers. HFC case is full of such instances and it was confirmed that business-links with the other PEs has become hurdles in the way of efficient working of PEs (cf. Con.4.16). As a seller, the obligation has provided captive market for PEs. Time will never be ripe for the removal of such a privilege, unless a beginning is made at some point of time. This hurdle is also being removed in recent years.

The fourth element of the then-existing set-up was lack of competition. This condition is being changed gradually after liberalisation policy of 1991. Whether PEs take this challenge or continue to rely on budgetary support is yet to be seen. Since sufficient time has not passed to conclude about the impact of these changes in the then-existing set-up, the implied suggestion of this hypothesis cannot be verified. One can only say at this stage that the steps taken in the direction of quality improvement are theoretically correct.
Hypothesis 5

Privatisation does not automatically ensure improvement in efficiency or profitability unless there is a strong group of experienced share-holders which will take active interest in the management and safeguard part-owner’s interest.

There has been a tendency to consider dis-investment as a master-key to all ailments of PEs. Government policy of partial disinvestment implemented since 1991/92 is looked upon as a magic wand to cure all ills.

But the researcher has reservations about the impact of disinvestment on operational efficiency.

The major requisites of operational efficiency are as follows:

- Autonomy in decision-making.
- Professionalism
- Result-oriented approach towards problem solving
- Motivation through effective incentive/disincentive schemes for all levels of employees
- A clear definition of responsibility/accountability

In the short run, partial privatisation is likely to have favourable impact on the following factors:

- It can ensure greater autonomy due to the counter-balancing pressure of private shareholders against the political pressures hitherto allowed to dominate the managerial decisions.
- Some element of professionalism can be expected if the representatives of private shareholders are elected on the Board.
- The outlook towards problem-solving is likely to become more result-oriented.

But, in order to reap these advantages there should be a strong group of private shareholders in the form of private business houses and financial institutions. Scattered, unorganised, small shareholders are not likely to have impact on the working.

In case of India, even financial institutions are public institutions and have inherited bureaucratic culture. Hence, only if private business persons with expertise and experience take active interest in the working, there is a hope for an improvement in operational/financial efficiency. These expected results will be achieved provided new shareholders do not join hands with the already existing vested-interest-groups.

Improvement in the motivation and clarity in the definition of accountability are not likely to be achieved in the short run. Short run achievements will decide these long run changes.

The fifth hypothesis does not stand verified.
SUGGESTIONS FOR FURTHER STUDY

For better and clearer understanding of the management problems of PEs case-study including comparison among PEs, private enterprises, multinationals may be undertaken.

Specific areas on which research work will be useful:

- Impact of recommendations of COPU on the PE-management
- Impact of liberalisation policy on PE performance
- Impact of MOU on management practices
- Comparative study of performance of two PEs under two different Ministries so as to judge the effect of over-burdening on PE - Ministry interface
- Construction management in PEs
- Project formulation/implementation in selected PEs
- Project planning in a selected PE over the decades
- Public enterprises of Maharashtra State

But, for reliable research work, accessibility to DPE/COPU/Secretariat library and the most important of all, constructive response from PEs need to be ensured.