Chapter-II

PUBLIC SECTOR AND ECONOMIC GROWTH OF INDIA

When India became free, it was thought that without economic self-reliance and social justice, independence will be incomplete. Heavy investment was therefore made in public enterprises to build infrastructure, promote rapid economic growth and industrialization, secure balanced regional development, create job opportunities, prevent concentration of wealth in few hand and reduce the economic disparities between the haves and have-nots. Till the mid-1980s, the public enterprise policy was by and large guided by the Industrial Policy Resolution of 1956\(^1\) which gave the public sector a strategic role in the economy. Many key sectors of the economy continue to be dominated by the public sector, which has successfully opened up new areas of technology and has built up a reserve of technical competence in large number of fields.

Before independence, there was almost no 'Public Sector' in the Indian economy. The only instances worthy of mention were the Railways, the Posts and Telegraphs, the Port Trust, the Ordnance and the Aircraft factories and few Government managed undertakings like the Government salt factories, quinine factories etc. After independence and with the advent of planning, India opted for the dominance of the public sector, firmly believing that political independence without economic self-reliance was not good for the country. The passage of Industrial Policy Resolution of 1956 and adoption of the socialist pattern of

\(^1\) INDUSTRIAL POLICY RESOLUTION, 30th April, 1956
the society led to a deliberate enlargement of our public sector\textsuperscript{2}. It was believed that a dominant public sector would reduce the inequality of income and wealth, and advance the general prosperity of the nation.

The planners also seemed to believe that by placing the management and workers in public enterprises in a position of responsibility and trust, they would be so imbued with a sense of the public good that their actions and aspirations would naturally reflect what was best for the country\textsuperscript{3}. The main objectives for setting up the Public Sector Enterprises as stated in the Industrial Policy Resolution of 1956 were:

- To help in the rapid economic growth and industrialization of the country and create the necessary infrastructure for economic development;
- To earn return on investment and thus generate resources for development;
- To promote redistribution of income and wealth; and create employment opportunities;
- To promote balanced regional development;
- To assist the development of small-scale and ancillary industries; and
- To promote import substitutions, save and earn foreign exchange for the economy.

In tune with the widespread belief at that time, the 2nd Five Year Plan stated very clearly that 'the adoption of socialist pattern of society as the national objective, as well as the need for planned and rapid development, require that all industries of basic and strategic importance, or in the nature of public utility services, should be in the public sector. Other


\textsuperscript{3} Ibid.,
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.

The Second Plan further emphasized that 'the public sector has to expand rapidly. It has not only to initiate developments which the private sector is either unwilling or unable to undertake, it has to play the dominant role in shaping the entire pattern of investment in the economy, whether it makes the investments directly or whether these are made by the private sector. The private sector has to play its part within the framework of the comprehensive plan accepted by the community.

Central public sector enterprises offer a wide range of products and services which include manufacturing of steel; manufacturing of heavy machinery, machine tools, instruments, heavy machine building equipment, heavy electrical equipment for thermal and hydel stations, transportation equipment, telecommunication equipment, ships, sub-marines, fertilizers, drugs and pharmaceuticals, petrochemicals, cement, textile, mining of coal and minerals, extraction and refining of crude oil, operation of air, sea, river and road transport, national and international trade, consultancy, contract and construction services, inland and overseas telecommunication services, financial services, a few consumer items such as newsprint, paper and contraceptives, hotel and tourist services, etc.\(^4\)

The Industrial Policy Resolution of 1956 has been the guiding factor, which gave the public sector a strategic role in the economy. Massive investments have been made over the past five decades to build the public sector. Many of these enterprises successfully expanded production, opened up new areas of technology and built up a reserve of technical competence in a number of areas. Nevertheless, after the initial concentration of public sector investment in key infrastructure areas, public enterprises began to spread into all areas of the economy including non-infrastructure and non-core areas.

Government of India announced on 24th July 1991 the ‘Statement on Industrial Policy’\(^5\) which inter-alia included Statement on Public Sector Policy. The statement contains the following decisions: “Portfolio of public sector investments will be reviewed with a view to focus the public sector on strategic, high-tech and essential infrastructure. Whereas some reservation for the public sector is being retained, there would be no bar for area of exclusivity to be opened up to the private sector selectively. Similarly, the public sector will also be allowed entry in areas not reserved for it.

Public enterprises which are chronically sick and which are unlikely to be turned around will, for the formulation of revival/rehabilitation schemes, be referred to the Board for Industrial and Financial Reconstruction (BIFR), or other similar high level institutions created for the purpose. Social security mechanism will be created to protect the interests of workers likely to be affected by such rehabilitation packages.

In order to raise resources and encourage wider public participation, a part of the government’s shareholding in the public sector would be offered to mutual funds, financial institutions, general public and workers. Boards of public sector companies would be made more professional and given greater powers. There will be a greater thrust on performance improvement through the Memorandum of Understanding (MOU) System through which managements would be granted greater autonomy and will be held accountable. Technical expertise on the part of the Government would be upgraded to make the MOU negotiations and implementation more effective. To facilitate a fuller discussion on performance, the MOU signed between Government and the public enterprises would be placed in Parliament. While focusing on major management issues, this would also help place matters on day-to-day operations of public enterprises in their correct perspective”.

In accordance with the decision announced in the aforesaid statement on industrial policy on public sector and also as per budget speech of July 1991\(^6\), in order to encourage wider participation and promote greater accountability the Government equity in selected CPSEs was offered to mutual funds, financial institutions, workers and the general public.

**Highlights of the Performance of the Public Sector**

- The share of CPSEs in GDP at market price stood at 11.12 percent in 2005-06 and 11.68 percent in 2004-05.

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\(^6\) Ibid.,
• The cumulative investment of all CPSEs, as on 31.3.2006 was Rs 3,93,057 crore. The share of manufacturing CPSEs in total investment was the highest at 51 percent followed by service CPSEs (40%) mining CPSEs (7%) during 2005-06.

• The overall growth in turnover of CPSEs, during 2005-06 over 2004-05 was 11.86 percent. The growth in the turnover of ‘heavy engineering’ and ‘construction services’ groups was the highest at 39 percent during the year.

• As high as 51 percent of all the CPSEs showed 75 percent of higher capacity utilization. 16 percent of CPSEs were operating at 50 percent and less than 75 percent capacity utilization and 33 percent of CPSEs were operating at less than 50 percent capacity utilization.

• The public sector has a near monopoly in the production of coal (65.52%), crude oil (85.87%) and refinery (74.51%).

• The aggregate reserves and surpluses of all CPSEs have gone up to Rs 3,59,077 crore in 2005-06.

• The long term loans of CPSEs went up to Rs 3,61,714 crore

• The accumulated losses of all CPSEs declined from Rs 83,725 crore in 2004-05 to Rs 73,147 crore in 2005-06 showing a decline in accumulated losses by Rs 10,578 crore.

• While the petroleum producing CPSEs ranked amongst the top ten profit making CPSEs, the fertilizer producing CPSEs were generally the loss making companies.

• As many as 44 CPSEs are listed on the domestic Stock Exchanges. While the shares of MTNL (ADR) are listed on the New York Stock Exchange, the shares of GAIL and SAIL are listed on the London Stock Exchange.
• The share of ‘taxes and duties’ in net value addition of CPSEs at market prices during 2005-06 was the highest at 46 percent, amongst all constituents. This was followed by ‘net profit’ (26%), ‘salaries and wages’ (19%), and ‘interest’ (9%)

Delegation of Enhanced Financial Powers to CPSEs

Under the Articles of Association, the Board of Directors of CPSEs enjoy certain amount of financial powers and autonomy in respect of recruitment, promotion and other service conditions of below Board level employees. The Board of Directors of a CPSE exercises the delegated powers subject to broad policy guidelines issued by Government from time to time. The government has granted enhanced powers to the Boards of profit making enterprises under various schemes like Navratna and Miniratna.

Keeping in view of the pledge made in the National Common Minimum Programme (NCMP), that full managerial and commercial autonomy will be devolved to successful profit making companies operating in a competitive environment, the Government have reviewed the powers delegated to the Board of Directors of Navratnam, Miniratna and other Profit Making CPSEs and have decided in August 2005 to enhance the powers.

Navratna Scheme

Under this scheme, the Government has delegated higher powers to CPSEs having comparative advantage and the potential to become global players. The Navratna CPSEs are :-

7 http://financesoeasy.wordpress.com/2012/05/31/difference-between-maharatna-miniratna-and-navratna/
• Bharat Heavy Electricals Ltd
• Bharat Petroleum Corporation Ltd
• GAIL (India) Ltd
• Hindustan Petroleum Corporation Ltd
• Indian Oil Corporation Ltd
• Mahanagar Telephone Nigam Ltd
• NTPC Limited
• Oil & Natural Gas Corporation Ltd
• Steel Authority of India Ltd
• Power Finance Corporation Ltd
• Bharat Electronics Ltd
• Hindustan Aeronautics Ltd

The powers presently delegated to the Boards of Navratna PSEs are as under:\n
- To incur capital expenditure on purchase of new items or for replacement, without any monetary ceiling
- To enter into technology joint ventures or strategic alliances
- To obtain by purchase or other arrangements, technology and know-how
- To effect organizational restructuring including establishment of profit centers, opening of offices in India and abroad, creating new activity centres, etc.

\footnote{Ibid.}
- Creation and winding up of all posts including and upto those of non Board-level Directors, i.e. Functional Directors, who may have the same pay scale that of Board level Directors, but who would not be members of the Board. All appointments upto this level would also be in the powers of the Boards and would include the power to effect internal transfers and redesignation of posts.

- The Board of Directors of these CPSEs have the power to further delegate the powers relating to Human Resource Management (appointments, transfer, posting etc) of below Board level executives to sub-committees of the Board or to executives of the CPSE, as may be decided by the Board of CPSE.

- To raise debt from the domestic capital markets and for borrowings from international market, which would be subject to the approval of RBI/Department of Economic Affairs as may be required and should be obtained through the administrative ministry.

- To establish financial joint ventures and wholly owned subsidiaries in India or abroad with the stipulation that the equity investment of the CPSE should be limited to the following:-
  - Rs 1000 crore in any one project
  - 15 % of the networth of the CPSE in one project
  - 30 % of the net worth of the CPSE in all joint ventures/subsidiaries put together

- Mergers and acquisitions, subject to the conditions that (i) it should be as per the growth plan and in the core area of functioning of the CPSE, (ii) conditions/limits would be as in the case of establishing joint ventures/subsidiaries, and (iii) the Cabinet Committee on Economic Affairs would be kept informed in case of investments abroad.
➢ To approve business tours abroad of functional directors upto 5 days duration (other than study tours, seminars, etc) in emergency, by the Chief Executive or the CPSE under intimation to the Secretary of the Administrative Ministry. In all other cases including those of Chief Executive, tours abroad would continue to require the prior approval of the Minister of the Administrative Ministry/Department.

The above mentioned delegation is subject to the following conditions and guidelines⁹:-

➢ Proposals must be presented to the Board of Directors in writing and reasonably well in advance, with an analysis of relevant factors and quantification of the anticipated results and benefits. Risk factors if any must be clearly brought out.

➢ The Government Directors, the Financial Directors and the concerned Functional Director(s) must be present when major decisions are taken, especially when they pertain to investments, expenditure or organizational/capital restructuring.

➢ The decisions on such proposals should preferably be unanimous.

➢ In the event of any decision on important matters not being unanimous, a majority decision may be taken, but at least two thirds of the Directors should be present including those mentioned above, when such a decision is taken. The objections, dissents, the reasons for over ruling them and those for taking the decision should be recorded in writing and minuted.

➢ No financial support or contingent liability on the part of the Government should be involved.

⁹ Ibid.,
These CPSEs will establish transparent and effective systems of internal monitoring, including the establishment of an Audit Committee of the Board with membership of non-official Directors.

All the proposals, where they pertain to capital expenditure, investment or other matters involving substantial financial or managerial commitments or where they would have a long term impact on the structure and functioning of the CPSEs, should be prepared by or with the assistance of professionals and experts and should be appraised, in suitable cases, by financial institutions or reputed professional organizations with expertise in the areas. The financial appraisal should also preferably be backed by an involvement of the appraising institutions through loan or equity participation.

The exercise of authority to enter into technology joint ventures and strategic alliances shall be in accordance with the Government guidelines as may be issued from time to time.

The Boards of these CPSEs should be restructured by inducting at least four non-official Directors as the first step before the exercise of the enhanced delegation of authority.

These public sector enterprises shall not depend upon budgetary support or Government guarantee. The resources for implementing their programmes should come from their internal resources or through other sources, including the capital markets.

Miniratna Scheme
In October 1997, the Government had also decided to grant enhanced autonomy and
deviation of financial powers to some other profit making companies subject to certain
elegibility conditions and guidelines to make them efficient and competitive\textsuperscript{10}.

These categories, namely, Category I and Category II. The eligibility conditions and
criteria are :

\begin{itemize}
\item \textbf{Category I CPSEs} should have made profit in the last three years continuously, the
pre-tax profit should have been Rs 30 crore or more in at least one of the three years
and should have a positive net worth.

\item \textbf{Category II CPSEs} should have made profit for the last three years continuously
and should have a positive net worth.

\item These CPSEs shall be eligible for the enhanced delegated powers provided they have
not defaulted in the repayment of loans/interest payment on any loans due to the
Government.

\item These public sector enterprises shall not depend upon budgetary support or
Government guarantee.

\item The Boards of these CPSEs should be restructured by inducting at least three non-
onofficial Directors as the first step before the exercise of enhanced delegation of
authority.

\item The administrative ministry concerned shall decide whether a public sector enterprise
fulfilled the requirements of a category I/category II company before the exercise of
enhanced powers.
\end{itemize}

\textsuperscript{10} \url{http://dpe.nic.in/publications/list_of_maharatna_navratna-and_miniratna}
Public sector occupies a key position in nation's economy in several sectors. Public Sector's share in total (national) production went up for items such as coal, crude oil and refinery over the period i.e. between 1968-69 and 2005-06. Production of coal from public sector increased from a meager 12.61 million tones (mt) in 1968-69 to 343.390 mt in the year 2005-06 which accounted for 85.52 per cent of the total production. Like wise share of the public sector in crude oil and refinery crude production was 85.87 per cent and 74.51 per cent respectively. However, there has been a short decline in public sector's share in the production of nitrogenous fertilizer where the share declined from 71 percent in 1968-69 to 26 per cent in 2005-06. In case of steel as well the share came down from 56 per cent in 1968-69 to 27 per cent in 2005-06. The share of power generation is also less than 50 per cent of the total power generation of the country.

Thus, public sector has a near monopoly in products like coal, crude oil and refinery. In products like finished steel, nitrogenous fertilizers and phosphate fertilizer, the public sector, however, faces competition from the private sector. It can be seen from the facts revealed in the survey that PSEs are significant contributor to the economy-my and the government on its part is providing favourable policy climate for making the PSEs more progressive.

The economy is witnessing unprecedented high growth that too on a sustained basis with policy planners targeting a 10 percent growth by the terminal year of the
Eleventh Five Year Plan. If this target is to be met, then PSEs have to play a decisive role of building infrastructure, particularly power sector where private sector is notable to make an impact. This is an onerous responsibility and the PSEs have the wherewithal to do so and time would bear the testimony to this.

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Name of Enterprise</th>
<th>Net Profit (Rs. in Cr)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Oil &amp; Natural Gas Corporation Ltd</td>
<td>14430.78</td>
</tr>
<tr>
<td>2.</td>
<td>Bharat Sanchar Nigam Ltd</td>
<td>8939.69</td>
</tr>
<tr>
<td>3.</td>
<td>NTPC Limited</td>
<td>5820.2</td>
</tr>
<tr>
<td>4.</td>
<td>Indian Oil Corporation Ltd</td>
<td>4915.12</td>
</tr>
<tr>
<td>5.</td>
<td>Steel Authority of India Ltd</td>
<td>4012.97</td>
</tr>
<tr>
<td>6.</td>
<td>GAIL (India) Ltd</td>
<td>2310.07</td>
</tr>
<tr>
<td>7.</td>
<td>National Mineral Development Corpn Ltd</td>
<td>1827.8</td>
</tr>
<tr>
<td>8.</td>
<td>Nuclear Power Corpn of India Ltd</td>
<td>1712.97</td>
</tr>
<tr>
<td>9.</td>
<td>Coal India Ltd</td>
<td>1711.66</td>
</tr>
<tr>
<td>10.</td>
<td>Oil India Ltd</td>
<td>1689.93</td>
</tr>
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## Top Ten Loss Making CPSEs

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Name of the Enterprises</th>
<th>Net Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Fertilizer Corpn of India Ltd</td>
<td>1294</td>
</tr>
<tr>
<td>2.</td>
<td>Hindustan Fertilizer Corpn Ltd</td>
<td>964.61</td>
</tr>
<tr>
<td>3.</td>
<td>Hindustan Photofilms Mfg.CO.Ltd</td>
<td>560.9</td>
</tr>
<tr>
<td>4.</td>
<td>Burn Standard Company Ltd</td>
<td>442.74</td>
</tr>
<tr>
<td>5.</td>
<td>ITI Ltd</td>
<td>423.16</td>
</tr>
<tr>
<td>6.</td>
<td>Hindustan Cables Ltd</td>
<td>295.32</td>
</tr>
<tr>
<td>7.</td>
<td>Konkan Railway Corpn Ltd</td>
<td>235.61</td>
</tr>
<tr>
<td>8.</td>
<td>Madras Fertilizers Ltd</td>
<td>131.74</td>
</tr>
<tr>
<td>9.</td>
<td>NTC (AP, Karnataka, Kerala &amp; Mahe) Ltd</td>
<td>103.99</td>
</tr>
</tbody>
</table>

Total | 47371.19
With only 44 listed PSEs so far, the public sector has achieved a rare distinction of becoming a major market player and the biggest wealth creator, accounting for more than one-fifth of the total market capitalization at the Bombay Stock Exchange (BSE) comprising a total of 7412 entities at the beginning of the year 2007.

During the year 2006, the value of these listed 44 PSEs grew in investors’ perception by nearly 14% which amounts to an increase of Rs 89,000 crore. The market capitalization went to about Rs 743,200 crore at the beginning of 2007 compared to over Rs 6,54,200 crore at the beginning of 2006. From the beginning of 2005, the BSE PSE Index shot up from 4425 to just below 6100 point at the beginning of 2007 reflecting their strength and value perception and demonstrating their potential over a short span of 2 years.

The value of sales i.e. turnover of CPSEs grew by 11.8 percent in 2005-06 over the previous year while it registered a 32 percent growth from 2003-04 to 2005-06. Commensurately, the net profit generated by the CPSEs as a whole, after accounting for losses of some loss-making CPSEs, has been steadily growing over last few years. In the last three years, the net profit of the entire central public sector enterprises has significantly increased from Rs 52,985 crore in 2003-04 to Rs 70,288 crore in 2005-06, growing at over 32 percent during the three year period.
Simultaneously, number of loss-making PSEs and total amount of losses has also declined significantly. While the number of loss-making PSEs came down from 89, in 2003-04 to 58 in 2005-06, the total losses declined, by more than 36 percent from Rs 8522 crore to Rs 5952 crore during the same period. The setting up of BRPSE in December 2004 for advising on restructuring and revival of sick and loss-making PSEs has also helped many CPSEs to turnaround. Till October 2006, BRPSE had made recommendations for 36 CPSEs, out of which the government had approved proposals for 21CPSEs.

Coinciding with growing economy, Government is also increasingly asking public sector to invest more and more and justifiably PSEs as a major component of the economy are nearly meeting the targets year after year with almost negligible or no growth in budget support. The planned investment in PSEs during 2007-08 is targeted at nearly Rs 1,84,383 crore, up by 65 % over Rs 1,18,462 crore in 2005-06. But for this, the budgetary support (equity and loans) has been sought to be only Rs. 19,300 crore as compared to Rs 19,700 crore in 2006-07 and Rs 17,600 crore in 2005-06. The CPSEs are thus taking a much bigger responsibility in planned development with less and less assistance from the exchequer demonstrating their growing strength and performance which is very significant in the faster growing national economy. There has been substantial improvement in the amount of internal resource generation of CPSEs, indicating clear improvement in the overall health of the public sector. Total resources of CPSEs, comprising of internal resources(IR) and extra budgetary resources (EBR) went up from Rs 1,00,800 crore in 2005-06 to Rs 1,22,757 crore in 2006-07, growing at 21.7 percent during the period. It is
expected to increase further to Rs 1,65,052 cr in 2007-08, growing at over 34 %. As can be noted from the chart, B.S. has come down from over 17.4% in 2005-06 to about 11% in 2007-08. This is indicative of growing component of IR in total resources of the CPSEs. Higher internal resources imply less reliance of the CPSEs on budgetary provision by the government thus freeing up precious national resources for necessary social sector investments.\textsuperscript{11}

The CPSEs contribute about 27 percent of the total industrial output of the country. And many of them have either a dominant share in output of select industries like coal (86%), crude oil (86%), refined crude (74.5%), power (43%), finished steel (27%) etc. The cumulative net investment in public sector has reached Rs 3,93,057 crore but the share capital of the promoters (i.e. the Central Government) is only Rs 1,41,061 crore, i.e, just 35 percent and that too has been falling over past few years. On the other hand, the dividend paid by the CPSEs has more than doubled to Rs 19,393.16 crore from Rs 9,596.45 crore in three years ending 2005-06. Together with higher contribution of taxes and duties, the significant increase in dividend resulted in over 40 percent increase in CPSEs contribution to exchequer during the period in consideration. The public sector is an important contributor to nation’s foreign exchange earnings as PSEs exports account for almost 11 percent of the total merchandise exports of the country. Also, PSEs total forex earnings

\textsuperscript{11} AGRAWAL M.D.: Efficiency of Public Enterprise India (Jaipur: Prateekha Publication.1987), P.206
have been steadily increasing over the years. During the period of 2003-04 to 2005-06, the forex earnings of the CPSEs registered an increase of 33 percent\(^{12}\).

Government of India, as part of its national agenda to promote growth, increase in efficiency and international competitiveness, has been continuously framing policies for industrial growth, fiscal, trade and foreign investment to achieve overall socio-economic development of the country. As a result of exceptionally severe balance of payments and fiscal crisis in the year 1991, the government decided to shift to a liberalized economy with greater reliance upon market forces, a larger role for the private sector including foreign direct investment.

The Government realized that a strong and growth oriented nation could be built if India grows as part of the world economy and not in isolation. Thus, liberalizing and deregulatory steps were initiated from the year 1991 onwards, which aimed at supporting growth and integration with the global economy. Since then, the thrust of New Economic Policy has been on progressive reforms such as reduction in the scope of industrial licensing, reforms in the Monopolies and Restrictive Trade Practices (MRTP) Act, reduction of areas reserved exclusively for public sector, disinvestment of equity of selected public sector enterprises (PSEs), enhancing limits of foreign equity participation in domestic industrial undertakings, liberalization of trade and exchange rate policies, rationalization and reduction of customs and excise duties and personal and corporate

income taxes, promoting FDI, investments from NRIs (Non-Resident Indians), extension of the scope of CENVAT, implementing the VAT regime in States, taking steps to switch over to goods & services tax system with effect from 01.04.2010, e-governance and simplification of various procedures, rules and regulations etc\textsuperscript{13}.

Since the setting up of World Trade Organization (WTO) in the year 1995, as an apex body at the international level, to which India is a signatory, the world trade has definitely grown thereby giving indications that international trade reforms do play an important role in boosting economic development of various countries. Industrial policy has seen a sea change with most Central Government industrial controls being liquidated.

The Central Public Sector Enterprises (CPSEs) were classified into ‘strategic’ and ‘non-strategic’\textsuperscript{14}. Strategic CPSEs were identified in the areas of (a) Arms & Ammunition and the allied items of defence equipments, Defence air-crafts and warships; (b) Atomic Energy (except in the areas related to the operation of nuclear power and applications of radiation and radio-isotopes to agriculture, medicine and non-strategic industries); and (c) Railway transport. All other CPSEs were considered as non-strategic. Further, Industrial licensing by the Central Government has been almost abolished except for a few hazardous and environmentally sensitive industries.

\textsuperscript{13} \url{www.cbec.gov.in/excise/new-cenvat-rules.htm}

\textsuperscript{14} \url{india.gov.in/spotlight/public-sector-undertakings-India}
Current Policy of Government on Public Sector¹⁵:

i) To devolve full managerial and commercial autonomy to successful, profit making companies operating in a competitive environment

ii) Generally, profit-making companies will not be privatized

iii) Every effort will be made to modernize and restructure sick public sector companies and revive sick industry

iv) Chronically loss making companies will either be sold off, or closed, after all workers have got their legitimate dues and compensation

v) Private industry will be inducted to turn-around companies that have potential for revival

vi) Privatization revenues will be used for designated social sector schemes

vii) Public sector companies and nationalized banks will be encouraged to enter the capital market to raise resources and offer new investment avenues to retail investors.

The Government has made a clear commitment to empowering the CPSEs and their managements. It was recognised that public enterprises could not compete effectively with private entrepreneurs without freedom to function and operate commercially. Thus, the concept of Navratna and Mini-Ratna was introduced with greater delegated authority, both financial and managerial. Government has realized that ‘Navratnas’, ‘Mini-ratnas’ and other CPSEs are required to grow and deliver on the promises they have made to their stakeholders. Other reforms have also been announced, such as professionalisation of the

¹⁵ Ibid.,
Boards of Directors of public sector enterprises and evaluation of performance of CPSEs through Memorandum of Understanding (MOU)\textsuperscript{16}.

**New Opportunities:**

In the competitive industrial scenario, one of the key components to increase the bottom line in the globalized economy is to find out how an enterprise leverages capability at a global level for procurement, sourcing and delivering all its products and services across markets far more rapidly and takes advantage by cross leveraging between various markets\textsuperscript{17}. In this context, Mergers & Acquisitions (M&A) have gained importance during the past few years and a storm of mergers of huge values have been notched-up. In response to the growing business and to release productive energies and to promote creativity of Indian businesses, the regulators have also issued guidelines to facilitate smooth transactions as well as making business restructuring tax neutral.

Business consolidation of market share, synergies of operations, reduction of time and money in entering the domestic & foreign market, reducing uncertainty of market share, to meet end-to-end solution needs, buying out competition, realization of stock market valuations, create value for shareholders, etc. are some of the reasons leading to spur in M&A activities within India as well as promote overseas acquisitions by Indian companies.

\textsuperscript{16} \url{www.dpmou.nic.in/MOUFiles/mougl1112.doc}

\textsuperscript{17} ‘New MoU norms to realign PSUs to global business environment’, Economic Times, Aug 18, 2013
Integration of Indian economy with global markets has thrown up new opportunities and challenges. Some of the public sector enterprises with strategic vision are actively exploring new avenues and have increased their activities to go in for mergers, acquisitions, amalgamations, takeovers and for creating new joint ventures. The Navratna CPSEs, which enjoy greater autonomy to incur capital expenditure and enter into joint ventures in India and abroad should avail of these opportunities for rapid growth overseas. Acquisitions, JVs and green field projects in Petroleum Sector have already taken place and are under active consideration in Power, Coal and Mining Sectors. Another important initiative towards re-structuring of public sector enterprises is ‘Disinvestment’ in select CPSEs. The Statement of Industrial Policy of 1991 stated that in the case of selected enterprises, part of Government holdings in the equity share capital of these enterprises will be disinvested in order to provide further market discipline to the performance of public enterprises18.

Some CPSEs have been such as Videsh Sanchar Nigam Ltd. (VSNL), Indian Petrochemicals Corporation Ltd. (IPCL), Maruti Udyog Limited (MUL), CMC Ltd., etc. have been privatized. In addition, there are CPSEs which have been acquired by other CPSEs by way of disinvestment and open bidding such as acquisition of IBP by Indian Oil Corporation Limited. There are also instances of acquisition of private firms by CPSEs as in the case of MRPL, which was a joint sector company and became a CPSE subsequent to acquisition of its majority shares by ONGC. There are also cases of domestic offerings,

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18 Government Of India, Ministry Of Industry Statement On Industrial Policy, New Delhi, July 24, 1991
GDR listing, offloading of some equity shares in the market or to another organization, and forming joint-ventures, by CPSEs.

The intensity of competition witnessed globally has cast its shadow on Indian businesses too ever since the GOI embarked on reforms in 1991 aimed at liberalising the economy, as mentioned in the previous chapter. Many global companies have been investing aggressively in India during the last decade attracted primarily by the size of the market. Athrcya (1997) pointed to the immediate threat of competition from innovative product development by MNEs already operating in India while the threat of product imports would rise with falling tariff levels. In their struggle for competitiveness, many Indian companies have been radically restructuring their businesses; reviewing their organisational designs and rewriting their corporate and business level strategies (Sinha. 1996). As Ghoshal (2001) suggests, Indian businesses need the courage to change and "courage cannot be taught'. What Indian companies need, according to him, to become world class is just not concept, prescriptions and tool kits but simply the desire to excel. Almost every company in India is struggling to drum up the courage to achieve world-class competitiveness, For, it is 'competitiveness' that is at the roots of the new economic paradigm of market economy and competitiveness remains the •litmus test' of enterprise performance in the present era of internationalisation and globalisation (Mishra 1999).

The competitive environment created by the WTO agreements extends to the investments by MNEs too as the Trade Related Investment Measures (TRIMS) offers them freedom to invest anywhere and everywhere across the globe to take advantage of both factor and
market conditions (Khor 1995). Keayala (1997) and Mattoo & Subramanian (1998) consider the non-tariff issues as implicit barriers foisted on exporters from developing economics. These include issues of ecological environment, labour standards, human rights, competition policy, subsidies to certain sectors like Small and Medium Enterprises (SMEs), agriculture, export promotion, concessionary tariffs on infrastructure services etc., often referred to as the 'New WTO Issues'. The basic principles of the WTO regime are built around free trade through negotiation, to promote competition without discrimination among the participants of the multilateral trading systems. Ghosh (1998), the People's Commission on GATT and many others contend that the WTO agreement was signed in "indecent hurry" by India but the fact remains that as a founding signatory, India is obliged to legally comply with all its commitments and businesses are now as much a part of the international processes of trade scrutiny as the country's trade policy.

Therefore, it seems that there is not much to be gained by finding fault with the decision of the GOI to join the WTO. Instead the reality of competition has to be accepted as an essential dimension of socially organised life and a cultural phenomenon (Coombs, Knights & Willmott 1992; Giddens & Weiskopf & Ungericht 2000). to develop and implement strategies that yield sustainable competitive advantage. As Weiskopf & Ungericht (2000) assert, "Strategic thinking and acting seems to provide the means to survive in the (corporate) battlefield". A variety of frameworks, concepts and analytical tools have emerged in management literature over the years to guide managers to handle

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19 Program on the Geopolitical Implications of Globalization and Transnational Security, Avenue de la Paix 7bis Geneva

intensified competition though the trap of treating 'strategy' as synonymous with success can be destructive at its very core (Weick 1987). Interest in the concept of 'strategy' has grown so much in the last couple of decades that 'Strategic Management' has developed into a distinctive discipline with a content of its own and meriting study by its own right. It would be helpful for this research project to survey the growth of literature on this vital subject of strategy.

As mentioned earlier, the country has witnessed more dramatic developments in subsequent years, as are evident from the successive annual economic surveys and the budget speeches of the Union Finance Ministers. The Committee on the Financial System, 1991 and the Committee on Banking Sector Reforms, 1998 (First and Second Narasimham committees) made exhaustive recommendations on reforming the financial and banking system covering prudential norms for capital adequacy, reduction of statutory preemptions, management of non-performing assets, rationalisation of priority sector lending, risk management, review of internal control systems etc. Following these recommendations, a number of changes have taken place in the regulation and supervision of the sector. These include, raising the minimum required capital to risky assets ratio from 8% to 9%; requiring greater disclosure from banks regarding the maturity patterns of their assets and liabilities in their annual reports, strengthening of prudential accounting norms; transparency in the financial system; deregulation of interest rates; securitisation of assets and so on.
In 1992, the EXIM Scrip Scheme was reviewed and replaced by a more attractive 'Liberalised Exchange Rate Management System' (LERMS) which allowed exporters to sell 60% of their export revenues at market determined exchange rates. The Supplementary Trade Policy Package of August, 1991 provided sharper export focus by winding up discretionary trade controls and offering special incentives to 100 percent Export Oriented Units (EOUs) and Export Processing Zones (EPZs). The new EXIM Policy of 1992-1997 pruned the negative list of imports sought to make the Export Promotion Capital Goods Scheme, more exporter friendly and the process continues as more and more items of import are shifted from the restricted list to the Open General Licence (OGL) and tariff levels decline in line with the commitments to WTO.

Similarly, the Tax Reforms Committee headed by Dr. Raja Chelliah in 1991 and more recently the 'Task Force on Tax Reforms' headed by Mr. V. Kelkar in 2002 have recommended wide-ranging changes in the tax structure and management of public finances. As Rangarajan (1994) points out, the reforms in the financial sector are aimed at getting the Indian financial system integrated with the global system and to modernize the instruments of monetary policy so that they can operate in a market economy.

Further, The Capital Issues Control Act, 1947 was repealed and the Office of Controller of Capital Issues (CCI) was replaced by the Securities and Exchange Board of India (SEBI) with statutory powers to ensure a healthy growth and prudential regulation of capital markets and responsibility for the safety of investors' interests. The Import and Export (Control) Act, 1947 has been replaced by a more international trade-friendly Foreign Trade
(Development & Regulation) Act, 1992; Foreign Exchange Regulation Act ('ERA) of 1973 has been repeatedly amended before being replaced finally by a more progressive Foreign Exchange Management Act (FEMA). 1999; a new Competition Bill, 2001 has been passed by Parliament in December, 2002; all restrictions on the import of technology and capital goods are being progressively relaxed; foreign direct investment in many industries is automatically approved up to 100% except for a small negative list where again the Foreign Investment Promotion Board (FIPB) is empowered to take an objective look and approve the investment proposals. Changes in the industrial, trade, fiscal and other policies are being continually made to harmonise with the global business environment.

The above package of continuing policy changes have come to be described collectively as the New Economic Policy (NEP) which has paved the way for second generation reforms in capital markets; Public Sector Enterprises (PSEs); banking, insurance and non-banking financial services; deregulation of industries considered strategic even in the early years of reforms so much so that currently only atomic energy, railways and other defence related aircraft, warships and ammunition industries stand reserved for the public sector. Obviously many leading sectors of industry such as mining, telecom, power, oil and gas, steel etc. hitherto reserved for public sector are all now open to private sector participation.

The immediate impact of these changes has been a significant rise in net FDI, which rose from a negligible 0.03% of the GDP in 1990-'91 to 0.7% at current market prices by 2001-'02. FOREX reserves of the country have swollen to a record level of $ 70 billion in
January 2003, up from a little less than $10 billion in 1991-92 when the reforms began (Economic Survey 2002-03, GOI).

**India's Commitments to WTO**

As mentioned in the previous chapter, India is a founder member of WTO which at the end of March, 2002 had a membership of 144 nations. The agreement establishing the WTO calls for a single institutional framework encompassing the GATT, as modified by the UR and hence membership of the WTO entails accepting all the agreements, arrangements and concluding results of the Round without exception. Based on the huge information and database available on the WTO website ([www.wto.org](http://www.wto.org)) and related websites, India's commitments under the various agreements are identified. Article XXVIII of the GATT, 1994 contains the original schedule of obligations for India to fulfill as part of the process of integration with the world trade, though India has been submitting rectifications and modifications from time to time under Article XXVIII: 1 and 5 of the GATT, 1994. As a result of India's commitments, India has bound 100% of all agricultural product lines (under the WTO definition of agriculture) and 68.2% of lines for non-agricultural products. Currently, India is committed to bind 75% of all the internationally tradable product lines by tariff agreements. The average applied Most favoured Nation (MFN) rate fell from 35.3% to 32.3% between 1997-98 and 2001-02 and is expected to fall further to 29% by 2003 as the "peak" rate of tariff gets reduced from 35% to 30%.

India is committed to a final average bound tariff of 50.60% by 2005, with an average of 115.7% in agriculture and 37.7% in non-agricultural product lines, which is considerably
higher than the MFN average tariff of 32.3% applied in 2001-'02. This difference between the MFN average tariff and the average bound tariff does give GOI the flexibility to raise applied MFN tariffs within the average binding but this is likely to be used to protect mostly agricultural products like edible oils, dairy etc. where the competitiveness of domestic producers is very weak. This trend is obvious from the decline in the overall average MFN tariff level from 35.4% in 1997-'98 to 31.1% in 2001-'02 for non-agricultural products while it has gone up from 35.1% to 41.7% for agricultural products during the same period.

There has been tariff escalation in some other sectors too, especially paper and printing, textiles and clothing, and food, beverages and tobacco where safety, health and environment related issues are involved. Well, assuming that the GOI would seek to progressively raise the current applied MFN tariff level of 41.7% on agricultural and allied product lines to protect the domestic producers, the non-agricultural product lines will have to take on the brunt of pushing the average MFN tariff much below the present level of 31.1% to achieve the average of 29% as envisaged. Further, the GOI is also expected to simplify the tariff to two tiers by 2004-05: 10% for raw materials, intermediates and components, and 20% for final products.

The customs tariff has become the main form of border protection as all other import restrictions maintained for balance-of-payments reasons have been removed. With its numerous exemptions and wide dispersion, the tariff is a complex and consequently opaque instrument. Its administration has attracted much criticism from domestic
businesses as well as from exporters of WTO member countries. In response, the Customs Valuation (Determination of Price of Imported Goods) Rules, 1988 that lays down the methods of determination of valuation of imports has been amended in 1998 to simplify the valuation procedures. The amended legislation has also been examined by the WTO Committee on Customs Valuation, and though some reservations persist regarding India's use of special and additional duties where it is not possible to determine the actual charges incurred on transport, loading, and unloading of imported goods entering the country, further simplification is being pursued on a bilateral basis with other member countries of WTO²¹.

Similarly, procedures relating to health certificates, plant and phytosanitary certificates required for certain goods; import permits to be obtained from the relevant departments of GOI and additional documents for the goods imported (or exported) under one of the preferential trading agreements are all being reviewed to bring them in line with the expectations of WTO members. To speed up customs clearance procedures, the Electronic Data Interchange (EDI) system has been introduced at almost all major ports and air cargo complexes and the accompanying computerisation in customs administration under the EDI system is progressing well. Under the EDI, the importer is not required to submit any documentation to customs in advance but need to be submitted only at the time of examination of the goods. These changes coupled with the decline in the use of industrial policy, including industrial licensing and phasing out of product groups reserved for

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production in the small scale sector, as also removal of price controls on several products including petroleum products has opened the Indian market to international competition.

Besides manufactured goods, India has also scheduled commitments across a range of services under the GATS\textsuperscript{22}. These include business services, communication services, construction and related engineering services, financial services, health and social services, and tourism and travel related services. MFN exemptions are scheduled for communication services (audiovisual services and telecommunication services): recreational services and transport (shipping services). These commitments were reinforced when India signed the Fourth and Fifth Protocols in 1997 and 1998 respectively\textsuperscript{23}. Under the Fourth Protocol, India scheduled commitments in voice telephony and cellular mobile telephony as well as value-added services, such as circuit switched data transmission services, facsimile services, and private leased circuit services. In general, India's current policy is more liberal than its scheduled bindings. For voice and mobile telephone services, commercial presence may be established through incorporation in India and a licence from the designated authority. Total foreign equity in the telecom sector was ceiled at 49% till 2002 but the Group of Ministers that met on 26\textsuperscript{th} February, 2003 on the eve of GOI's Union budget, 2003-'04 has raised the ceiling on foreign equity ownership up to 74% for telecom services.

\textsuperscript{22} David Held, Anthony McGrew, David Goldblatt and Jonathan Perraton, Global Transformations, Politics, Economics and Culture (Stanford: Stanford University Press, 1999), p. 2

\textsuperscript{23} Ibid.,
India was earlier committed to allowing competition from the private sector in international long-distance telecommunication services in 2004 but this date was brought forward to 2002 and has been fulfilled. Under the Fifth Protocol, India raised the limitation on licences for new and existing banks from 5 to 12 per year; in addition, banks would be allowed to install Automatic Teller Machines (ATMs) at branches and at other places identified by them (ATMs installed in premises other than branches are treated as new premises and would therefore require new licences)\(^{24}\). New commitments have also been scheduled in stock broking and financial consultancy services.

Thus, India's commitments both in respect of goods and services open up many opportunities for Indian businesses to tap markets outside India while at the same time, competition from imports and domestic production of global players will escalate. As Rangarajan (2001) believes\(^ {25}\), it is important to keep up to the commitments made to the WTO while at the same time fully utilising the safeguards available in the agreement to protect the interests of Indian industries. There are many countries knocking on the doors of WTO for admission and Indian businesses must get organised to compete with the rest of the world as greater globalisation of the Indian economy is unavoidable.

**Global Competition: Concern and Challenges for Indian Businesses**


Serious doubts were expressed in the industrial circles about the Indian industry's capacity to face foreign competition, in the initial years when reforms began. The sombre mood of the domestic industry could be gauged from a warning note struck by a former Chairman of ITC Ltd. "as Indian organisations enter global markets- and as global players enter India- our managers are confronted with a totally different ball game. No matter how effective and professional they have been, they never before have had to face such fiercely competitive situations." When far-reaching changes were first notified, the initial reaction was one of disbelief, and there was an underlying feeling of complacency that nothing will change radically. Subsequently, once the change of policy became an established reality, trepidation, anxiety and almost fear gripped the industry. There was, therefore, resistance to liberalisation and even efforts were made to push back or stall the reforms process. It is true that, until recently, lobbying by certain pressure groups did extend the period of transitional adjustment. To this date, an opinion is aired generally that the Indian industry should have been given more time to gear up itself to meet the challenge of globalisation flung at it.

The reasoning is that before the onset of reforms, government regulated restrictions constricted the industry's growth, and in the process, they were accustomed to working in a highly sheltered market. For instance, because of severe restrictions on capacities prescribed under the licensing system, economies of scale had, until recently been only of theoretical or academic value. Similarly, inducting superior technologies, capital expansion

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and new product development were constrained and certain cost advantages were cornered by a limited number of firms by virtue of their having acquired power over some fixed sources of supplies. Further, some reputed business houses held strong attraction for talented professionals or finance flowed more easily to them but liberalisation has changed all that. Today access to sophisticated technology, capital, raw materials and professional manpower depend on the bargaining power of enterprises at the international market place and ability to forge joint ventures, strategic alliances, technical or marketing collaborative arrangements etc. where considerable relaxations have been introduced in the new policy. These changes have paved the way for the entry of MNCs, which has been a major concern for Indian businesses. While some would prefer limited and phased entry for them, others advocate their free entry and argue that real competition is encouraged only under the pressure of MNCs (Palande 2000)\textsuperscript{27}.

Now that the outlines of the emerging scenario are clearer than in the early years of reforms, the initial feeling of anxiety is giving way to an attitude of acceptance of the inevitability of internal and worldwide competition. The concerns expressed by Indian businesses even in late 1990s about their ability to manage competition from MNCs are being overtaken by more positive responses to the new ground realities. After its initial hesitation and anxiety, the industry has started gearing up and individual companies are Irving to meet the challenge in their own way, devising their own strategies for the marketplace, with some of them having sought the help of domestic and international

management consultants for deep interventions to radically restructure their business portfolios and organisations. A study by Fortune India Research Bureau and Tulip Research Bureau suggests that the 'Growth of the top 100 companies in the post-liberalisation scenario has been more sharp than that achieved during the pre-reforms stage (Fortune India, 15 October, 1997). Other evidence is found in the results of a study by Hong Kong based Asia Incorporated, which, in collaboration with the Global Consultancy Company and Arthur D. Little, identified Asia's fifty most competitive companies.

Yet the process of global competition is still in its early phase for Indian corporates and significant challenges are ahead for them. Just as success stories can be heard of Indian businesses that have taken liberalisation and globalisation well in their stride, there are far many losers who have not been able to keep pace with the changes. For instance, a study carried out by the Economic Times compared the net worth (issued equity shares plus retained earnings less accumulated losses) of around 1,500 companies listed on major Indian stock exchanges in 2001-2002 with their net worth five years back. The study indicates that around 600 companies have suffered erosion of investors' wealth as their net worth in 2002 is lower than what it was in 1997. The character of the market is changing from a seller's market to a buyer's market with the opening up of the country's borders. The markets are now flooded with the latest and technologically superior products and services from all over the world, the like of which the Indian market has never seen before. Now the consumer, thus, has a much wider choice of products, services and suppliers. The Economic survey for 2002-03 has noted that, "there has been a
remarkable improvement in the quality of domestic consumer products, with convergence towards the best international practices”.

The nature of the customer's demand is also changing. He can now expect better quality, even with low-priced products. Companies can no longer expect to sell what they produce - they must only produce what customers will buy. As expressed by Oswal (1998), 'Being locally competitive is not enough, because the markets simply don't accept anything less than world quality'. Consequently, companies are now paying greater attention to producing internationally competitive products. The changed situation has encouraged technological upgradation, with improvement in efficiency, greater attention to quality, competitive pricing, better after-sales service and customer satisfaction, etc. The information technology (IT) and communications revolution and the vibrant growth of the domestic IT industry have contributed richly to the diffusion of information on new technologies and to competitive benchmarking by producers while also enhancing the quality of demand from domestic consumers. As the concept of globalisation percolates down the Indian businesses, there is a "growing realisation in many sectors of the need to move up the value chain, bridge the gap with demand conditions in developed markets while increasing the competence gap with other developing countries (Khan & Jain 2001)".

Different groups have reacted differently. Some have emphasised consolidation, cost control, productivity, etc. Others are reviewing their core competencies, size and scale,

28 http://businesstoday.intoday.in/story/indias-business-houses/1/16696.html
mergers and acquisitions, takeovers, and the like. Within the industry itself different sub-groups have adopted different tactics. With relentless competition, managing skills, learning and knowledge is being recognised as a key driver for India to be a part of the global economy. Before the players can adjust to the changing pace, they discover that the rules have changed, transforming the entire ball game creating confusion and uncertainty.

Mr. Tarun Das, Director General of CII in an article captioned, "Role Change" (Economic Times, 27* October, 2002) said, "the great news coming out of India, specially the corporate sector, is that as the global economy integrates and becomes more complex, those Indian companies which have focused strongly and clearly on their mission, are emerging as winners". He further asserts that the challenges of globalisation, competition and economic slowdown are bringing out the creativity and courage of Indian managers as more and more young people take up leadership positions, learning, falling, making mistakes, getting up and getting on with their jobs.

**Summing Up**

Of course, it may still take some time for improvement in product quality and service, for it will require a change of psyche of the producers and service providers as well. This is really the essence of competition as the process of change is on. The acid test for corporate India would be its ability to hold its own when it comes to competing in the global market. If it can compete and score aces on the turf of other countries, rubbing shoulders with other players and yet making a distinct mark, it is then that India would be rising to the
challenge. This may sound Utopian or far-fetched. Deterrents and stumbling blocks are only natural since India has had a wall of protection for much too long. This is visible on its streets and boardrooms. This protective wall led to a passive existence, one which did not put pressure on India to strive hard to be competitive or to insist on a quality and pricing structure which would be in keeping with global expectations.