CHAPTER VI
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POTENTIALITIES OF PUBLIC ENTERPRISE FOR EFFECTIVE RESOURCE MOBILIZATION

Introduction

The analysis of the growth of public enterprise in India has revealed that in the last few years a huge investment has been made in them and a large number of capital goods industries have been established. The growth of capital goods industries is important in the sense that they work as growth centres around which further development takes place. The purpose of establishing these industrial projects was to check the concentration of economic power, to make a thrustful move towards rapid and diversified industrial development, to take the country towards self-sufficiency in the industrial production and to create surplus earnings for financing the Five Year Plans. Therefore, in this respect, one may ask what good has actually come out of the vast public sector investment? Let us first of all find out the positive results which have actually been achieved through the public sector industries. These industries have served an effective instrument for achieving social and economic objectives. Serious gaps in the economy, particularly in the field of heavy industries such as manufacture of steel, heavy machine tools, heavy electrical
equipments, exploration and refining of oil, manufacture of heavy chemicals and fertilizers and the indigenous production of defence equipment have been, to some extent, overcome through public enterprises. Having regard to the value of total production of finished products of the public sector industries, the huge savings in terms of foreign exchange can most easily be inferred. Besides, the undertakings have saved foreign exchange by producing such goods which have otherwise been imported. Public sector plays an important role by providing fresh job opportunities for both skilled and unskilled labourers. Also, working as a 'model-employer' it provides various indirect benefits to its employees. Further, by putting an additional investment in the backward areas to bring them at par with the developed ones, public sector reduces regional disparities. Moreover, public undertakings represent a landmark in the transformation of a predominantly rural country into an industrial one.

But in spite of such a versatile objectives of public enterprises and the huge investment therein, the criticisms against them are spread widely throughout the country. Public enterprise can claim no virtues unless it functions effectively as an instrument of production and as a creator of new wealth. Like the private sector, public enterprise also must stand or fall on the test of efficiency, profit, service and technological advance. The analysis of the working of public sector has revealed that there is a vast
gap between ideals and practice and it has failed to bring desired results to the national economy. The role of public sector enterprises as a source of resource mobilization for the economy is not positive as their profit margin is insignificant. The undertakings of the public sector are not working to their full capacity. They are lagging far behind in their production targets. The cost of production is high, and, consequently, the profit margins are low.

Analysing the problems faced by public sector in India, we have seen that the public sector undertakings have suffered in their working due to various reasons. As a result of administrative and managerial deficiencies, the cost per unit of production is substantially high while revenue earnings of some of the public sector operations are low due to their pricing policy. Defective selection of managerial staff created a gap of skilled and trained management. Wrong planning of project have led to delay in completion of project schedule. Lack of material management and inadequate attention on the demand analysis caused heavy stock of raw-materials and finished products in—as—much—as defective personnel management caused over-staffing and industrial disputes. Last but not the least, public sector in India is also a victim of politics and many decisions are taken under undue political pressures.
Suggestions for Reforms

The foregoing discussion shows: (a) that public enterprises have achieved success only in some specified areas and could not meet the needs of the country despite colossal investments made therein, (b) that public enterprises have failed to mobilize adequate resources for economic development through their monetary returns, (c) that their role in capital formation has not been a significant one. Naturally, the question arises: what reforms are necessary in order to get rid of this state of affairs? In this Chapter I have made various suggestions to improve the performance of public enterprises so as to make them an effective instrument for economic development. These include reorientation of their pricing policy, efficient and enlightened management, autonomy of management, effective materials management, financial management and personnel management, co-ordination among different departments, proper planning, demand analysis and market strategy and introduction of various incentive schemes etc., which will be helpful in the attainment of the desired objectives.

In our view the practice of a deliberate policy of low price adopted by the Government operations for gains in other sectors of the economy and the conservative pricing policy pursued by the public undertakings which does not permit them to earn high profits as private enterprise do with the same level of investment, should be given up. A rationale pricing policy should be evolved
so that the production of goods and services by the public enter-
prises may create substantial resources for economic development.

Indeed, public enterprises have a significant contribution to make in the process of economic development not only by way of their direct contribution in augmenting the total national output but also in terms of the resources they can generate for further development. Undoubtedly, public enterprises should also make profits and should generally assist in the harnessing of resources for future growth. There was a time when the concept of "no-profit-no-loss" basis was considered appropriate for the public sector enterprises but the irrelevance of this theory, particularly in the context of the developing economies, has been generally accepted. The price policy of public enterprises have to be broadly guided by the paramount consideration of providing not only an adequate return on capital but also the necessary surplus for further expansion.

When the price policy of public enterprises is geared to the mobilisation of a substantial surplus, certain dangers are expected to come in forefront. As this method of resource mobilization is administratively convincing and politically practicable, the Government may have the temptation to exploit its monopoly position and to raise the prices frequently which is inconsistent with the public policy. But the danger may not be real because in the revision of prices of the products of public enterprises, the State may give top priority to social considerations which are
fundamentally different from those which the private sector has in raising prices in order to fleece the consumers. Thus, the private enterprises have profit-orientation to the utter neglect of social considerations. On the contrary, in public enterprises, social obligations are equally important along with the profit motive. So in the public sector, profit is not necessarily inconsistent with public purposes, but it may itself constitute a public purpose, even if it remains secondary. Therefore, the enterprises must adopt appropriate pricing policies in order to achieve a satisfactory rate of return on investment. However, if they do not make a good return on investment, then at least they should not be run on losses. In the initial stages of production, when an enterprise may not earn sufficiently to cover the cost with large expenditures on social overheads and fixed capital, it may not fix its price on the basis of its costs till it has reached the break-even level. But after the promotional phase is over, the enterprise should endeavour to make a normal profit. In any circumstance, the public enterprises should not incur losses as no consumer is served best and no nation prospers if an important public enterprise goes bankrupt. Contrary to it, profits are required in a planned economy just as we collect revenue for economic development through taxation, borrowings and foreign assistance. If the profits are not mopped up from public enterprises, then the public authorities have to rely heavily on taxation and the deficit financing, which does not give relief to the public in comparison to high
prices of the product they consume. Therefore, there must be a target of surplus return on capital employed in the public enterprises.

It is encouraging to note that in regard to the cost and price studies, the Government has a statutorily established body in Tariff Commission, a Bureau of Industrial Costs and Prices established under a Government's Resolution and, in addition, the organization of the Chief Cost Accounts Officer and the Bureau of Public Enterprises. Their recommendations on the public enterprises financial position based on assessment of the cost of production with a return on capital-employed is in the range of 8 to 16 per cent which is expected to cover bonus to employees, interest on borrowing capital, taxes and dividends.

If, on the other hand, emphasis in any product is on social considerations then it must be clarified in the plan project. Instead of incurring losses in providing the services to the community by keeping the prices artificially low, it is suggested that a subsidy should be shown separately. This is necessary because it would not affect the working of undertaking even if it runs on losses and the image of public sector would not be distorted. On the other hand, working will also be affected if the prices are extraordinarily high to raise the profits as it will curtail the demands of the consumers. But by raising the prices, undertaking should make surplus which may be ploughed-back for the expansion of industry and thus increase the production capacity,
which will automatically keep down the prices and will create more demands. It is interesting to note that Hindustan Machine Tools, which made adequate profits, almost all of which were ploughed back into the expansion and construction of new plants at different places made possible for the Company to supply a large share of domestic demand at prices relatively cheaper than even import prices.

One complex consideration in the determination of prices of public enterprises is the finding of financial resources to pay for the expansion of economic overheads and facilities provided by them. With the growth of public investment in the economy, expenditure on economic and social overheads is enormous. In view of this, the principle of full cost pricing should be applied. Full costs are relevant in the long-run when an enterprise expands its plant and equipment because the future of public enterprises is not the short-run but the long-run. Hence, instead of variable cost, full costs should be counted.

Adoption of full cost pricing raises another important issue. Whether average cost or marginal cost should be taken in determining prices of a unit of product? It is maintained that prices in public enterprises should be fixed on the basis of marginal cost principle, so as to ensure an optimum allocation of resources. This principle would lead to maximum output. However, there are several difficulties in measuring marginal cost which make the calculations of cost arbitrary, specially

1. Full costs include the alternative cost of the firm and the normal profits. They also cover interest on the funds invested by the owner.
where an industry produces a number of items. In India, the marginal cost in the short-run is bound to be different for the long-run cost and hence, it is necessary to take into account not only the current cost but to be able to forecast the future. Besides marginal cost principle means maximum utilization of capacity which cannot always be achieved. Therefore, this question assumes more significance particularly when there is always a degree of monopoly power in public enterprises. It is generally felt that marginal cost pricing leads to huge profits at the expense of consumers.

It would then appear that the concept of price being equal to average cost (AC) is more valid as a price theory for a developing economy like ours. However, this theory is hedged by limitations arising out of difficulties involved in correctly measuring all inputs. The time factor is another important element in pricing. That is why, it is argued that pricing in public enterprises should cover current cost as well as capital cost.

In order to cover full cost of products of the undertaking, the concept of cost-plus has been the criteria of the pricing policy. But an important issue in working out this cost-plus formula is the efficiency of the enterprise, because consumer is not expected to pay for inefficiencies which are widespread in our public enterprises. The cost-plus formula has been generally adopted in the case of undertaking whose products are purchased by Government. The Indian Telephone Industries entered into a
fixed price contract with selling prices as on 1st April, 1965 as the base, and an escalation clause to adjust increases in costs relative to the base year. It is sometimes argued that the cost-plus formula impairs the keenness of the management to reduce prices and might even lead to a situation in which an undertaking finds that it can earn larger profits if its costs are higher.

To avoid the principal shortcomings of cost-plus formula the system of using the landed-cost of similar products as a norm for fixing fair prices has been adopted in respect of undertakings like Heavy Electricals, Hindustan Machine Tools and Heavy Engineering Corporation etc. It is asserted that the landed-cost formula has the advantage that it introduces a competitive element in the price of public enterprise operating under monopoly conditions and that it should be applied in respect of all such undertakings. But landed-cost is not to be regarded as a particular norm for comparison of prices and it includes many elements. In such circumstances, the c.i.f. price plus the countervailing duty, if any, should be regarded as the standard of comparison. But in cases where the imported goods have the benefit of export subsidies in the countries of origin, the c.i.f. price should be proportionately weighed. Prices determined on this basis will also give an indication of the soundness or otherwise of the investment made in the project. Although it has certain advantage but it is not of universal application to all such industries or undertakings. For example, the HMT can sell their products at a
price substantially lower than the c.i.f. price of similar items, while the Heavy Electricals and Heavy Engineering Corporation are not in such a position. To a certain extent, it can be said that these variations are the result of over-capitalisation in one project as compared to another but generally they are due to the different circumstances in which the undertakings find themselves. It is to be remembered that wherever public undertakings are operating under non-competitive conditions and where the number of buyers of the product is limited, the price level should be determined on the basis of c.i.f. value of similar items in preference to the cost-plus formula.

However, the ability to produce goods at costs matching the c.i.f. price of similar goods will differ from undertaking to undertaking. Therefore, a detailed examination of the cost structure of the products of the undertaking concerned should be undertaken to determine the level of permissible deviations. For this purpose, the Government can utilise the machinery of the Tariff Commission or the Cost Accounts Organization of the Ministry of Finance.

As the policy of the Government in a developing economy is to encourage investment and discourage consumption, discriminating price policy could be applied to achieve the results for surplus earnings. For instance, coal, mineral, oil and electricity are all production as well as consumption goods and if prices are so
fixed as to charge less for production purposes and more for consumption purposes, the Government's policy would become effective. Thus, the use of a product having higher elasticity could be charged lower price and the use of a product having lower elasticity, a higher price. Prices may be discriminating between consumers, i.e., higher prices may be charged to those who can pay more for the same commodity than those who cannot afford to do so. This has been proved to be useful method for earning surplus from the public enterprises which can be invested in further developmental activities of the nation.

There are certain cases of inter-undertaking disputes on prices between the industrial undertakings. To remove the bottlenecks in such cases, a suggestion has been made by Administrative Reforms Commission for setting up a permanent Commission, a kind of central price commission in resolving inter-undertaking disputes on prices. This Central Commission should pay attention on the survival of the producing concern, i.e., the concern must get sufficient earnings to expand.

In short, price policy pursued by the public enterprises must be decided ultimately in relation to the needs of the economy. And these needs in both developed and less developed economies are to promote adequate capital formation, to make the cost structure lowest and to use the resources as economically as possible.
Secondly, in order to mobilize adequate resources for economic development, it is necessary that the public undertakings should be manned by efficient and enlightened management. The profits of business enterprises do not accrue entirely through the mechanism of pricing or from the simple laws of demand and supply. An efficient management which has tight grip over all departments and functioning of the undertakings, can secure economies of a significant order in the inputs, obtaining them at nominal prices and using them economically, dispensing with the avoidable wastes and overhead and distribution costs. Unless the board of management is equipped with competent persons, the state of affairs in the public sector cannot improve. The Board of Directors should be a "balanced" one. It should be the prime concern of the Government to select the best men available for the jobs. In selecting the members of the Board of Management, Government should ensure that a person so appointed does not have any interest that conflicts with the commercial interest of the undertaking, and that he should have faith in public sector. The Member of Parliament or the Minister should be kept away from the Board of Management of the public undertakings. The main reason is that the job of a M.P. is to supervise and to criticise the Boards and to judge them on their performance. The task of supervision cannot be combined with membership of the Board.

The method of selection of the top executives in the undertakings should be changed. In place of retired civil servants,
dynamic and trained managers should be recruited. Persons trained at the training centres of the management should be absorbed in the undertakings. Preference should also be given to the personnel working within the undertakings, if they have acquired the necessary qualification. It is encouraging to note that the Government has decided in principle to replace the old executive with the new cadre of trained and competent managers. The Bureau of Public Enterprises should also play its role in the selection of top executives for public undertakings. It should maintain a panel of suitable persons with a view to assist the administrative ministries in making appointments to the Boards of public undertakings and providing consultation for such senior posts as may be prescribed. The whole procedure for the appointments should be systematic and action to fill up the posts should be taken in advance to avoid vacancies remaining unfilled. Part-time official nominees to the Board should not be appointed at a time for two or three Boards. They should not be burdened with substantive work that they find it difficult to play a useful part in Board meetings. There should not be frequent changes in top posts. For the efficient working of the management, the manager should be appointed for a fairly long period of tenure. This would enable the person appointed to make a significant contribution on the basis of the experience that he gains in that undertaking.

Moreover, in order to have best cadre of top executives it is essential to provide them incentives through handsome salary
and better opportunities of promotions. Managerial motivation in public enterprise is not an easy task as there are no well-knit and well-conceived schemes of incentives. To take up the financial incentives first, there is a need for structuring the jobs and for relating their scales of pay to the responsibilities and status that go with them. The scales of pay have to be such as would bind the managers to the enterprise and spur them to work for its objectives. There must be schemes for accelerated promotions for meritorious work shown in meeting or exceeding the targets. The financial incentives comprise bonus payments, gratuity benefits, profit-sharing schemes, etc. Regarding the non-monetary incentives, it may be stressed that these have an equally important role to play in motivating managerial personnel. It is a well known fact that the importance of non-monetary incentives increases with the increase in the status of a person in an organisation. The more important non-monetary incentives are: improvement in the working conditions, designations, authority and control system, association in the policy formulation and execution practice etc. A climate is to be created that the managerial command is made to feel that he is a 'responsible head' of his division or section, over which, within certain constraints of accountability, he will enjoy full powers of authority and control. However, merit should be the only criteria for advancement in career. The quality of management of public sector undertakings has become a matter of vital importance to our society as without it the public enterprises will not
be able to meet the high expectations of the public. Thus, all the efforts should be made to get the dynamic and suitable persons to manage the undertakings, which can play an important role in mobilising the resources for economic development.

In order to deal with the problems of defective planning, proper attention should be paid on material management, financial management and assessment of labour requirements. A number of projects that have been taken in the public sector have not been completed as per schedule with the result that the actual cost of each completed project has gone far beyond the estimated amount. Some of the factors which are responsible for delays in the production schedule are late supply of working drawings by collaborators, late supply of plant schemes, delay in supply or non-availability of raw materials, shortage of foreign exchange etc. Although these are mostly beyond the control of the management yet there are a number of factors which it can control, such as delays in construction, procedural delays, delay in awarding contracts etc. so that the cost of product may be kept minimum. Also, the cost of the products and services should be reduced. The costs of public enterprises have increased due to the increase in the cost of equipment, custom duties, establishment charges, additional facilities to plants and under-estimation of certain items. Some of these costs could be foreseen and controlled by better management.
Adequate attention is not being paid by management to encourage managers in construction projects in taking responsibility and timely decision on their own or by condoning minor mistakes. Surely, this is bound to encourage the management to complete in much lesser time as compared to private sector. The fear of criticism by Audit, Parliamentary Committee is very much exaggerated and it is taken as a good cover by indecision or not taking decisions by playing safe. We do not hear of public sector managers punished for taking quick and timely decision in the interest of the project which might prove wrong later on.

One of the most important things generally noticed in the public sector is the lack of adequate awareness regarding coordination and team work, each manager tending to be individualistic and deserving to act in isolation. The top management should make sincere and persistent efforts to make people work as a team by regular and frequent consultations among heads of departments and at lower levels. This gives them a sense of involvement which could easily be made good use of.

The availability of technical personnel with the right expertise should be given due consideration so that delay in construction could be avoided. It should be ensured that the project report is considered by the Board of Management in a reasonably short period, otherwise a revision is made due to changed circumstances and the price level. As soon as the Board approves the project, action should be taken immediately. In the
location of the unit from the point of view of availability of raw-materials, facilities of construction and availability of construction materials should also be seen. The feasibility report should be supported by a master control network for controlling its operation.

An important factor involved in the planning for the public sector projects is related to demand analysis of the finished projects. A large number of public enterprises in our country is engaged in producing capital goods, demand for which is very sensitive to the fluctuations in the economy. And at the same time, their product-mix cannot be easily adapted to alternative production. As a result, most of them are not working to their full capacity, which jeopardises their profits. Therefore, it becomes imperative that independent assessment of the demand of projects for products should be made by the respective authority. This exercise should be repeated periodically. Persons with proven ability and experience should be drafted for such task who could watch the changes in demand caused by switch-over to alternative products, as for example, the demand for coal has considerably reduced due to dieselization and the electrification of railways.

In order to be able to mobilize substantial resources for economic development, the public enterprise should also take a careful review of market trends and prospects. It must integrate the market thinking into all sections. Marketing is not mere
selling, but it calls for a higher degree of coordination between designers, engineers, production selling and finance department in order to be responsive to the market demand. Some commendable efforts in this direction are noteworthy. The HMT is developing a series of special types of machine tools and also entering into new lines of production which have high market-potential. Moreover, the stress should be given on the production of export items so that their installed capacity could be utilized to the maximum. At the same time, it will solve the foreign exchange problem of the country. More than two-third countries of the world are still underdeveloped and they offer significant marketing opportunities to our public enterprises. Quality and price are two cardinal considerations which determine the response of the consumers. The above provision will help in checking inventory accumulation also. Thus, the capacity utilisation would be maximum which would lead to the better working of enterprise and the maximization of profits.

Moreover, to meet the nation's requirements of various essential products, diversification of product-mix of industrial units is essential. Different types of product of a plant will also help in curtailing the under-utilization of capacity. A proper assessment of the nature and the extent of joint products and by-products, likely to arise during the production of plant, should be worked out so that adequate arrangements about their utilization could be made. Also inter-unit relation of production
will be helpful in disposing of the idle products. Finally, the management should adopt the modern ways of inventories storage.

So far as the financial management is concerned, the Financial Director should attempt his best to keep the operation away from the financial crisis. He should determine the financial resources required to meet the company's operating programmes. He would be able to assess the nature and extent of these requirements to be met by internal generation of funds and by external resources. The Financial Director should develop the best plans to obtain the external funds needed for the operation. In particular, equity and loan ratio must be changed, so that the burden may be minimised. This requires enhancing of equity participation and reduction in dependence on loan capital on which substantial amount is paid in the form of interest. Further, a differential rate of interest to reduce the burden of interest cost may be prescribed depending upon types and importance of different enterprises. In this manner, the net profits will go up and the expense ratio will go down.

It is generally noted that the profits can be increased or reduced by manipulating the depreciation rates. Such manipulation may be prevented when the depreciation rates are fixed by the Central Authority Organisation, and cannot be changed without its approval. Thus, in order to ensure an adequate self-financing mechanism to the public enterprises in India, the enterprises should be allowed to earn as much profit as they can by adopting
efficient operational technique, inventory control, lower proportion of loan to equity, a reasonable rate of depreciation and a suitable interest rate on the loan capital.

To be able to play its role in the effective mobilisation of resources, it is imperative that the management should be competent to deal with the personal problems of the undertakings. Man-power planning should be chalked out properly at the early stage. But if, any enterprise is facing the problem of over-staffing, it should be careful in further recruitment. The surplus man-power can be transferred to the new constructed projects. A voluntary retirement can be helpful in reducing the surplus staff. Moreover, various types of incentives must be given to the personnel to leave the undertaking. Thus, the cost of hiring extra employees may be reduced and the profits or surplus creation may be bright.

Thus, the management has significant responsibilities in public sector enterprises, as it deals with the various problems therein. Since our public enterprises have become the giant plants and their work-load has become heavier, the powers of management should be decentralized. Management should be separate for each department to supervise the site easily and conveniently. Confusion to any management regarding job responsibilities should be removed at the early stage. The responsibility should be laid down clearly as to what is expected from the managers and how they
will be held accountable. Industrialization spells out change—a change from tradition to modernity. Therefore, newly industrializing societies must create new and modern management practices and methods relevant to their specific needs. In order to secure better results, better system of data collection and processing assume greater importance. Therefore, the management should have an up-to-date data information system, which can be relied upon for quality decisions.

The public enterprises cannot play positive role in the mobilisation of resources, if the relations between labour and management are not cordial. Management must let the workers feel that they are part and parcel of the organisation and are doing their own work. At the same time, "a sense of belonging" is to be created, i.e., employees should think in actual practice that the work is their own. The workers' participation on the Board of Directors will be helpful in removing misunderstanding among the management and workers. The establishment of cordial relations between management and workers, the building-up of understanding and trust between them, substantial increase in productivity, securing of better welfare and other facilities for workers should be the main objective of the workers' participation. If the worker effectively participate in the management, they would take active interest in the work and consequently the attitude of hostility towards the employer would disappear, and the production would increase. It is encouraging to note that recently the Government
has decided to give representation to workers on the Board of Management of public sector undertakings. But there are some pre-requisites for the success of this scheme. The management of public enterprises, for example, should be free from bureaucratic tradition and increasing ministerial interference. Also, managers of public enterprises should get oriented to their functional role of managers of socialist enterprise and also get equipped with human relations. Workers, in general, and their representatives, in particular, should get equipped with the skills and knowledge required for understanding the complications of the management.

In short, these are the aspects where the management and workers can be assigned their respective roles for the successful working of enterprise. By and large, "a sense of belonging" is to be created among every section of the enterprise. If both of them do not think in constructive direction, the enterprise would not be able to achieve its objectives. In this respect, the responsibility of the Government is also significant. It must try to do its best to improve the condition through its constructive approach. In making the policy, the Government should be guided more by the economic rather than the political motives. The undue interference at the Ministerial level should be avoided. The management should be free from the tight procedure of the Ministries to give management a free hand in day-to-day conduct of business. There is a great need for evolving a management and control system of public enterprises which would maintain a right balance between autonomy and
Excessive external control will inevitably have a frustrating effect on the manager and weaken its initiative to take quick decisions. If our public enterprises are to be run efficiently, the choice of activity in decision-making should be essentially left to a management team consisting of persons who are wedded to the enterprise and are appointed for a reasonably long period to be able to give evidence of competence.

While discussing the performance of undertakings in Parliament, constructive steps should be recommended. Several Committees such as Estimates Committee and the Committee on Public Undertakings have been appointed by the Parliament to assess the working of public sector undertakings. Attempts should be made to implement their recommendations. Further, the objectives for which the concern is established must be spelled out clearly from the very beginning. The objectives should guide the broad principles for determining the precise financial and economic obligations of the enterprise in matters such as creation of reserves, the extent to which the enterprises should undertake the responsibilities of self-financing and the anticipated returns on capital-employed etc. An accurate assessment of the surplus from the undertakings is desired, because a rough assessment of surplus from public enterprises for the Five Year Plans have invited a widespread criticism.

It will not be out of place to mention that public enterprises have to improve their image in the public. One point, however,
merits attention. Much of the criticism against public undertakings in India is due to the ignorance of the people about the objectives and the achievements of public concerns, besides false propaganda by a section which is dead against the policy of public sector. In this connection, the role of Public Relation Officers in public sector undertakings is significant in conveying the achievements of public sector regularly. It should disseminate the socio-economic objectives of public sector in plain language to project its right image among the people, particularly its role in the mobilisation of resources for economic development.

The public sector undertakings are to function as viable projects, creating wealth or resources for their growth, without taking advantage of their monopolistic position and reckoning their profits in the business sense by following the commercial objectives as considerations overriding the social purposes. But profits must not accrue entirely through the mechanism of pricing or from the laws of demand and supply. They must spring from efficient management and the better supervision.

It is encouraging to note that the performance of public sector undertakings is improving now-a-days, as various steps have been taken. Both the production and labour productivity in public enterprises have increased. The reasons for this improvement lie in better marketing situation, general improvement in economic conditions and serious efforts of the management. A general cost-
consciousness is being noticed amongst the managers of public sector in recent years. Successful efforts seem to have been made to bring down per unit cost of production. The above statement becomes relevant while we go through the report of Industrial and Commercial Undertakings of the Central Government during 1974-75. Out of 120 operating companies in 1974-75, 81 earned a profit (after tax) and only 39 suffered a loss. The gross and net profits in 1974-75 were of the order of Rs.559 crores and Rs.184 crores. The improvement in the performance is more significant as compared to 1972-73, when for the first time, the public enterprises earned an overall profit of Rs.18 crores. Along with the sharp rise in profit, the profitability also improved sizably. The return on capital employed in 1974-75 was 8.4 per cent while the ratio of net profit to paid up capital was 4.9. As a result of the sizable increase in profit, the public sector enterprises were able to generate internal resources of the order of Rs.580 crores.

The improved performance is to be attributed to the rise in production, better utilization of capacity, and large sales turnover. While in 1973-74, only 75 companies had a capacity utilization of more than 75 per cent, in the year 1974-75, 54 companies achieved this distinction. 27 Companies had a capacity utilization of 50 to 75 per cent. Efforts are being made to reduce the inventories accumulated in undertakings of public sector. Consequently, from an equivalent of 7.9 months' value of production in March 1966, the inventories came down to 3.9 months' production in the end of 1974-75.
The above achievements highlight the improvement in the working of public undertakings in recent years. But we must not be complacent. The efforts for the continuous better performance should be made because still there is a wide scope for capital formation in our public enterprises. Opportunities for earning substantial profits can be explored by effecting improvements in multifarious directions. The public sector projects should be quickly completed so that the benefits of investment flow early enough. The bureaucratic management must give place to more imaginative, flexible and professional management, apart from reducing costs. Profits should be regarded as a normal feature and as an index of operational efficiency. Heavy losses should be thoroughly investigated and top management should be accountable for the poor performance.

Re-organized on the lines suggested above, the public enterprise is bound to play a significant role in building up the economic base and in the effective mobilization of resources for the economic development. The pricing policy of public enterprises, it may be added even at the risk of repetition, needs radical changes so that the production of goods and services by the public enterprises may create substantial resources for economic development. In view of the enormous investment in these enterprises and the need of augmenting further resources for our developmental plans, the country cannot unduly continue the "wait and see process" and experiments of converting "loss-incurring"
enterprises into "profit-earning" concerns. With adequate amount of experience gained, it is fair to expect that every rupee put into the development of public enterprises is fully utilized, which in turn, must contribute substantially to our plan outlay. We should, therefore, apply more pragmatic approach, be more vigilant over each of the units in the public sector and try to make it an ideal sector by improving its production, productivity, efficiency and accountability. The performance of public sector units should be related to these norms of performance so that they can effectively mobilize the resources for the economic development.