ABSTRACT

Soon after independence, it was rightly felt that independence will be incomplete without economic self reliance and social justice. So heavy investment was made in public enterprises (Pes) to: (i) build infrastructure, (ii) promote rapid economic growth and industrialization, (iii) Secure balanced regional development (iv) Create job opportunities where persons belonging to socially disadvantaged communities could have their due share (v) Prevent concentration of economic power (vi) reduce disparities in income and wealth the second five year plan stated in unequivocal terms: “The adoption of the socialist pattern of society as the national objective, as well as the need for planned and rapid and development, require that all industries of basic strategic importance or in the nature of public utility services, should be in the public sector”. The state has to assume direct responsibility for the future development of industries over a wider area.
However, public sector units not only failed to produce surplus, which was expected to generate for future growth but the return on investment also remained poor. The public sector in India, considered to be the vehicle of speedy economic development had run into rough water. The functioning of many public sector units were characterized by low productivity, unsatisfactory quality of goods, excessive manpower, inadequate human resource development and low rate of return on capital. Facing a severe economic crisis such as fiscal deficit, balance of payment crisis, increased non development and non-plan government expenditure and dismal performance of public sector undertakings. India approached IMF for loans and IMF granted structural adjustment loans' to India. These are the loans which are based on certain conditions attached to it relating to structural changes in the Indian economy. Therefore, the Government of India introduced a new era of economic reforms based on these conditions. These reforms were liberalization, privatization and globalization. In India government policy of privatization in the form of disinvestment, means reduction in government equity in public sector enterprises.

Disinvestment plays an important role in revenue generation. Good disinvestment receipts can help the government reduce fiscal deficit not only by way of equity sale in public sector units but also for
the subsequent cap in government transfer to sick public sector units. However, the question that is examined in this study is “whether disinvestment can lead to better results”. The study proposes to undertake the case study of Videsh Sanchar Nigam Ltd. to substantiate the findings of the study. Going beyond this an attempt is made to understand the issues raised in the Indian economy during the disinvestment process and future strategies and recommendations are suggested to make the disinvestment programme fruitful.

Privatization of public sector units is not a new field in India. But disinvesting of PSUs is quite a new one which means reduction in government equity in public sector enterprises. Very few studies on this subject have been conducted during the last ten years. A critical examination of several of these studies reveals, among other things, that concepts used therein are not quite clear and methods adopted are unsatisfactory process. Therefore, need has been felt to spell out clearly the methodology and the concepts, which may be adopted in the study of disinvestment as has already been given in chapter - 1. Trends in the past few years have displayed wide and abysmal differences in disinvestment targets and actual receipts. Political hurdles in disinvestment, interventions of stakeholders and interest groups as well as poor state of public sector units have all contributed to this
performance. Besides, there are a number of problems associated with the disinvestment process. The number of bidders for equity has been small not only in the cases of financially weak public sector units but also in that of better performing public sector units. The government has often compelled financial institutions, UTI and other Mutual funds to purchase the equity which was being unloaded through disinvestment. These organizations have not been very enthusiastic in listing and trading of shares purchased by them as it would reduce their control over public sector units. All this has led to low valuation or under pricing of equity. Identification of public enterprises which are fit for disinvestment is quite ticklish one and cannot be resorted easily. Further, in many cases, disinvestment has not really changed the ownership of public sector units as the government has retained a majority stake in them. Since the public sector units do not benefit from disinvestment they have been reluctant to prepare and distribute prospectuses. This in turn prevented the disinvestment process from being completely open and transparent.

If the disinvestment policy is to be in wider public interest, it is necessary to examine systematically issues such as the correct valuation of shares, the appropriate use of disinvestment proceeds and the institutional and other pre-requisites.
The present study has been divided into six chapters. In chapter I, there is an introduction to the study. It gives a brief discussion of disinvestment, on designing research methodology and literature review. It gives a synoptic view about the plan of the work and the techniques used for analytical study of the whole gamut of issues and problems that fills the gap in the existing stock of knowledge on the subject. It presents study of existing literature on disinvestment and VSNL. Chapter II, goes in to the background of public sector enterprises and the emerging pattern of disinvestment in India. Further, it gives a short view over the benefits that are likely to be derived from disinvestment. Chapter III examines the concept and emergence of the disinvestment policy in India. It reveals the methods and procedure followed for the disinvestment of various public sector enterprises in India. It also reflects the target realization of disinvestment proceeds from the years 1991-2007. Chapter IV has two parts, first part of the chapter deals with the policy implication in the disinvestment programme in India and second part of the chapter takes up the issues emerged from time to time during the disinvestment of public sector enterprises in India. Chapter V takes up the case study of Videsh Sanchar Nigam Ltd. It reveals the company background, its takeover by Tata and its performance after disinvestment. Chapter VI sums up the
study with suitable suggestions and recommendations for the effective implementation of future disinvestment programme in India.

In the thesis, all the important issues relating to the disinvestment of public sector enterprises have been thoroughly and critically examined and appropriate suggestions have also been given for making the disinvestment programme fruitful. These suggestions pertain to the existing system and practices of disinvestment. A case study of Videsh Sanchar Nigam Ltd. has been undertaken to review the programme. Videsh Sanchar Nigam Ltd. (VSNL) was incorporated in 1986 as a public sector enterprise to cater to overseas communication services. VSNL was taken over by Tata on 13 February 2002 and acquired a controlling stake in the company. VSNL has an international long distance monopoly but now within a six years period, it had turned into a global telecommunication powerhouse as an Indian Multinational corporation. In case of VSNL disinvestment, strategic sale was considered appropriate, as it brings financial, technical, marketing managerial expertise to the company which results in low cost, less regulation and better quality communication for the citizen. The findings of the study justify the statement that disinvestment leads to better results if carried in a transparent manner. No doubt VSNL, a cash-rich public sector enterprise has become from good to better after
disinvestment. VSNL, a member of the US$29 billion Tata group, is a leading global communication company offering next generation voice, data and value added services to enterprises carriers and retail consumers. VSNL is listed on the Bombay Stock Exchange and the National Stock Exchange of India and its American Depository Receipts (ADRs) are listed on the New York Stock Exchange. In 2005, VSNL acquired Tyco Global network. In 2006, VSNL completes acquisition of Teleglobe International Holdings Ltd. In 2007, VSNL launches next generation dedicated global Ethernet service for the Australia Market. Metro Ethernet Forum (MEF) 9 and 14 certified global Ethernet Service enables Australian Enterprises to connect to India and throughout the world. VSNL has been chosen as the network administrator for one of the world’s largest and sophisticated trans continent cable systems - SEA - ME - WE (South East Asia - Middle East - Western Europe). VSNL’s wireless fidelity (wi-fi) enables computers for use high speed internet without the need for any wires or cables. In 2008, VSNL, VSNL International and Teleglobe have being united as Tata Communications.

The study has undertaken detailed review of literature on disinvestment and it has been classified in to two broad categories (i) Background overview (ii) Current view. Further, the present study develops four hypotheses, they are:
1. Whether disinvestment is the need of the hour.
2. Whether disinvestment leads to better results.
3. Whether VSNL a Cash Rich Public Sector Enterprise after disinvestment have become from ‘Good to better’ or from ‘Good to Worst’ enterprise.
4. Whether future strategies are needed to be evolved for effective implementation of disinvestment programme in India and to remove obstacles confronted during the programme.

The findings of chapter-2 support the first hypothesis that disinvestment is the need of the hour as it was realized that the government could no longer meet the growing demands of the economy and the government holding had to come down.

Another reason for the adoption of disinvestment policy in India has been inability of the government to raise high taxes, overcome balance of payment crisis and budgetary deficit problems. The findings of the present study have brought to fore that the disinvestment programme undertaken in India till now have some pitfalls given in chapter –4. If these pitfalls are removed then disinvestment could lead to better results like:

1. It would improve management.
2. Raise resources for the public sector units.
3. Enhance budgetary receipts.
4. Improve productivity and profitability of enterprises.
5. Develop capital markets.
6. Unlock the productive potential inherent in the public sector undertakings.
7. Disinvestment yields will increase GDP Growth and tax revenues which ultimately will reduce fiscal deficit.

The findings of the chapter 5 proves that VSNL a cash rich public sector enterprise has become from 'good to better' enterprise within a period of six years after disinvestment. The findings of the study have highlighted certain issues that emerged during the implementation of disinvestment programme in India and that results in to serious stumbling blocks in the future disinvestment process. In order to avoid, such issues the study proposes certain future strategies and recommendations given in chapter-6 for the effective implementation of disinvestment programme in India like what to sell and how to sell?

In India, various methods are adopted for disinvesting Public Sector Units like sale to outsiders, management employee buyout, equal access voucher, contracting and strategic sale. The growing politicization and intransparency in the methods and process of disinvestment has marred the objectives of the policy especially in case of BALCO, HPCL and BPCL. The present study is an attempt to assess
the available document within the relevant policy frame and identify major issues that need to be taken into consideration in the design and implementation of the disinvestment programme in India. The study proposes that intensive monitoring, detailed implementation plan and guidelines to ensure fair access to the network also need to be designed in the restructuring plans. Fair, just and equitable procedure should be followed in carrying out disinvestment, lack of transparency and the decisions taken in hurry should be avoided. The role of organizational culture and management of various interest group is critical to a successful disinvestment programme. The study is important as it finds that the process of disinvestment in India has been ineffective because it has been difficult to find private bidders who are confident of restructuring the enterprise. Disinvestment has been successful in China because the proceeds of disinvestment go to the enterprise not like India where the government use the disinvestment proceeds for reducing its fiscal burden.

Last, but not the least, the study proposes suggestions and recommendations to make the disinvestment programme more fruitful. Disinvestment which is considered essential for ensuring efficiency, profitability, introduction of new products and services, innovation
should be adopted as it is the need of the hour by making necessary amendment in the policy.