CHAPTER – 1

DESIGNING AND LITERATURE REVIEW
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1.1. INTRODUCTION

The proposed research is an academic attempt to examine the pros and cons of the government policy of privatization in the form of disinvestment which involves the sale of the public sector equity to the private sector and reduction or withdrawing of investment. 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. But has the government been successful in this context. Trends in the past few years have displayed wide and abysmal differences in disinvestment targets and actual receipts e.g. for the year 2001-2002, the targeted receipts were 12,000 but the actual receipts were 5632. Political hurdles in disinvestment, intervention of stakeholders and interest groups as well as poor state of public sector units have all contributed to this performance. Thus, the public sector in India, which was perceived to be the vehicle of speedy economic development, has run into rough waters. It not only failed to produce surplus, which it was expected to generate for future growth but the return on investment remained poor. 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.

1.2. Issues and Statement of Problem

The thrust of India's disinvestment has been on off setting the large chunk of the fiscal deficit rather than infusion of more private investment capital. When the government started disinvestment there was some confusion regarding strategic and non-strategic areas, which to some extent delayed the process. Some people made a case for excluding profit making companies from disinvestment. It was said that they contributed to the exchequer, that companies like ONGC and Indian Oil had found a place in fortune 500. However we should not forget that these companies are doing well under monopoly conditions.

A number of problems are 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. Besides, 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 that 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 disinvestments they have been reluctant to prepare and distribute prospectuses. This in turn prevented the disinvestments process from being completely open and transparent.

To make the disinvestments policy in wider public interest. It is necessary to examine systematically issues such as the correct valuation of shares, the appropriate use of disinvestments proceeds and the institutional and other pre-requisites.

1.3. Comprehensive Review of Literature

In this section, detailed review of literature on disinvestments has been undertaken and it has been classified in to two broad categories (i) Background Overview (ii) Current View.

(a) Background Overview

1. Ramanadham (1988) viewed that “the best answer to the issue of privatization is to take the necessary steps to improve the efficiency of public enterprises by making suitable changes in the management structure and their relationship with the government and parliament. Steps should be taken to replace the civil services culture by commercial culture in public enterprises”.

2. Barnekov and Raffel (1990) highlighted on productivity of services among the public and private enterprises. They claimed that the shift from public to private provision of a service is no panacea for greater productivity. The best opportunity for improving productivity using privatization occurs when the service is easily measured and
monitored, but productivity effects are more ambiguous when the situation is complex, as in such fields as human services and education”.

3. Momtazuddin (1991) in his article entitled “Privatization: Present Status and Future Potentials as Policy Options Development”, presents a conceptual guideline regarding privatization. He expressed his opinion that privatization should be considered from both economic and ideological view points from economic point of view, privatization is identified as a means of increasing output, improvement of quality and minimization of cost. On the other hand from the philosophical point of view, privatization broaden the base of ownerships that an individual has a stake in the economic system.

4. Prasad (1991) opined that public enterprises lack autonomy. It is bureaucracy that takes major decisions for the organization on the other hand, the private sector organization model has several elements, which ensure efficient management apart from market forces.

5. Singh (1991) threw light on a basic issue that whether the new pattern of ownership leading to privatization of public sector undertakings results in greater efficiency or not. The resource factor and management factor are the two cardinal elements, which need to be considered in any move on privatization.

6. Bishop and David (1992) advocated that change of ownership brings about the change in regulatory environment, which compels the organization to perform more effectively.
7. Reddy (1993) in an article entitled “privatization as development strategy”, observes that privatization by itself does not automatically lead to better efficiency but needs to accompany overall packages of employment, technology modernization, productivity and professional management, it reduces government’s budgetary commitments, political and bureaucratic interference and ensures overall economic development. So the process of privatization may become an instrument of public enterprise reform and development of economy.

8. Schregle (1993) in his article, “Privatization and Industrial Relations: General Perspective”, has highlighted on some of the major industrial relations problems arising from privatization. If privatization policies are to be carried through with a minimum of labour troubles and a maximum of economic, social and political stability and efficiency, it is required to promote a close constructive dialogue between public authorities employee’s organizations and trade unions.

9. Sunita Kikeri and Others (1994) in their research paper captioned “Privatization lesson from Market Economies”, Examine the objectives of privatization and the strategies for achieving them in both competitive and non-competitive markets. The authors analyzed the various tactics that can be or have been employed in relation to scope, pace, sequencing and methods of implementation. The evidence shows that privatization produces benefits of efficiency if done right.

10. Deogiriker (1994) in his research paper “Privatization: A Global Survey”, concludes that the strategy of reform for the less developed countries should be improvement of efficiency. The success
of privatization depends on economic, political and social factor and managerial considerations.

11. Bhaskaran (1994) viewed that talking about privatization is easy but implementing it may not be so. The transition needs to be brought in very carefully and the impediments need to be tackled tactfully. There is need to do the homework in a systematic manner, only then can we bring about the desired change without pain, panic and trauma.

12. Bimal Jalan (1996) viewed that “Political interference is unavoidable in public corporations and is a major cause of decline in operational efficiency, such political decision-making reflects itself in the less than optimal choice of technology or location, overstaffing, inefficient use of input and purchase or price preferences for certain suppliers. Most government also impose non-economic objectives on public enterprises”.

(b) Current View

13. Atal Bihari Vajpayee (2000) viewed that “we will strengthen the capability of our public sector, give greater managerial autonomy, foster technological up gradation for enabling them to effectively meet the new challenges of globalization and increased competition”.


15. Nandini Gupta (2001) said, “The background of the disinvestment process in India leads us to believe that dynamic
selection is not a major problem. The debate in policy circles and in the media has focused on the absence of a privatization plan like which firms to sell, how much to sell and when to sell. The disinvestment programme of the government is completely incoherent and lacks transparency and conviction”.

16. Department of Disinvestment (2001) report. In the governments own words, “Disinvestments would help in releasing huge amount of scarce public resources locked up in non-strategic public sector enterprises for deployment in areas such as public health, education etc., stemming the further outflow of scarce public resources for sustaining the unviable enterprises, reducing public debt, transferring the commercial risk, to which tax payer’s money is exposed, to the private sector, releasing other tangible and intangible resources, such as, large manpower currently locked up in managing public sector enterprises, for redeployment in areas that are much higher on the social priority”.

17. Gargi Parsai (2001) opined, “the disinvestment of Air India and Indian Air Lines has run into heavy turbulence. If Air India’s disinvestment has hit an air poket with only one bidder left in the fray, Indian Airlines has virtually been grounded with no bidder left. When the centre set out to disinvest in Air India and Indian Airlines, the market was showing signs of growth. But suddenly there has been a slump capacity is available and fares have fallen. Also about seven airlines are up for sale in the world, including three Latin American airlines and Iberia of Spain, Malaysian Airlines, Thai Airways and Ansett of Australia. But there were no takers. In that sense, it was a good time for bidders to buy, but bad time for the government to sell”.
18. S. Swaminathan (2001) in his article said “that all the fervid debates on the gains and pains of liberalization over the last ten years, have almost invariably skirted the central problem of economic restructuring which is that of withdrawal of government from manufacturing activities whenever competitive market mechanisms can deliver better. If the public sector constellation stood for the “command and Control” economy, the new paradigm would dictate the transfer of public enterprises to the private sector such that competition replaced monopoly power. Ten years down the road, economic reforms in India have already made a difference to the sprawling ‘empire’ of the public sector. This despite high-level committees (such as the Rangarajan Committee) advocating disinvestment of government equity down to 26 percent in the vast majority of enterprises excepting those considered “strategic” entities demanding government tutelage”.

19. G. Ganesh (2002) (Former Secretary of the Disinvestment Commission) said in his article “Public support for the disinvestment process can be secured only when the proceeds of the disinvestment are spent for specific social purposes, instead of going to meet budgetary deficits. The stated aim of the government is to reduce public debt and provide funds for social sector from the proceeds of disinvestment. But till date no data is available on the use of disinvestment proceeds”.

20. G. Ganesh (2002) in mid term economic review opined, “disinvestment should not be viewed purely from the revenue perspective. It must aim to unlock the productive potential of public sector enterprises. Besides disinvestment should galvanize these enterprises to promoting high quality employment as well as competition in the Marketplace”.
21. Editorials Opinion (2002) “Disinvestment programme has been one of the most controversial Reform measure. Despite some recent significant success in carrying forward the programme, there was always the possibility that it might stall on account of one or other of the controversies that were never fully doused. The latter for instance, the methodology to divest has remained in the background. Even as the public sector sale programme was gathering steam. Since there has been no convincing resolution of the major issues - admittedly easier said than done - the programme was bound to hit a roadblock, as it did recently”.

22. D. Varadarajan (2002) opined in his article “the recent VSNL controversy highlighted the non-adherence to the secretarial standards prescribed by the institute of company secretaries of India. The salutary principles of corporate governance need to be developed and crystallized at the earliest to pre-empt any further unsavory corporate episodes. The present committee requires to be revamped and broad-based immediately, to enhance credibility and stature, if the DCA is really serious about evolving edifying corporate governance standards”.

23. V. Sridhar (2002) said that “controversy continues to dog the union governments disinvestment programme and ensnared in it are some of India’s leading corporate entities. The latest involves the Tatas, one of the country’s oldest and biggest business groups, which in February acquired Videsh Sanchar Nigam Limited (VSNL), one of the public sector crown jewels. The controversy erupted as soon as the Tatas announced in late may that VSNL would invest Rs. 1200 crores in one of its own group companies in Tata Tele Services Ltd. (TTSL). The
union cabinet was divided, amid speculation that it was but a reflection of an ongoing corporate tussle over, how the Indian Telecommunications pie was to be divided among private corporate entities”.

24. George Fernandes (2003) (Former Defense Minister of India) in his article “I believe that the objective for disinvestment should be to benefit the public, the consumer and the investor and at the same time, to improve competitiveness and eliminate monopoly. Our disinvestment policy should therefore, be to offer these companies to the public of India. The current system of strategic sale is tantamount to handing over the entities created with the wealth of the people of India to further enrich the already rich. In the transfer of VSNL and IPCL we have created monopolies with Tata and Reliance cases of rich becoming richer with people’s money. If we pursue the strategic sale route in the aluminum and petroleum sectors, it is very likely that we will create monopolies within these vital sectors of the economy. State monopolies will become private monopolies. Is this good for the Indian consumers?

25. C.P. Chandrashekhar (2003) in an article viewed that “the lack of executive accountability to parliament in the matter of privatization of public sector units, besides being constitutionally incorrect, is disastrous from the point of view of economic policy.

26. Naib (2004) viewed that “After a great deal of initial excitement and reservations, disinvestments of Public sector enterprises has become on going process in the country. But the debate continuous, with some enthusiastically endorsing it and others expressing apprehensions and opposition, By and large, this debate has been at the
ideological level. Ideology cannot be kept out of the debate, but disinvestment has other dimensions too. The modalities of disinvestment are important. So are its consequences”.

27. Bimal Jalan (2004) (Former RBI Governor) said at FICCI conference that “I don’t think there is any difference in view that we want high growth, lower poverty, low inflation, financial stability and a strong market.. Unless you correct the fiscal problem, you cannot achieve what you want”.

28. Monica Sethi (2005) in his article said that “Selling of public sector enterprises on which crores of rupees have been wasted will give a large one time capital gain, which itself can be a panacea for a debt ridden country like India.”

29. C.R.L. Narsimhan (2005) said “The decision not to let the government stake fall below 51% in public sector banks is not surprising. The debate over the appropriateness of one method over the other is far from over and is at the core of the opposition to disinvestment. The shelving of the strategic sale route in 13 profit companies therefore has not come as a surprise. It is possible that the government may still find a way to garner political support and sell small lots of shares in profit-making public sector enterprises without ever countenancing a dilution to below 51 percent”.

30. Nagraj (2005) in his research paper “Public sector enterprises financial losses were not the principal cause of the growing fiscal in the 1980’s and infact public sector enterprises share in the fiscal deficit had steadily declined in the decade. In other words, the
government per se was largely responsible for the growing fiscal deficit, not the enterprises owned by it”.

31. N. Sridhar (2006) said, “There is something eerie about the way public assets are disinvested. Announcement of impending disinvestment of publicly owned companies usually come without warning. The objective appears to be more to catch the public by surprise than to carry out a transparent or logical exercise. The recent decision of the union government to sell 10 percent of its equity in National Aluminium Company Ltd. (NALCO) and the fierce resistance it has met with, highlights why disinvestment has been controversial in India”.

32. Dr. Manmohan Singh (2007) (Prime Minister) said, “I believe that many joint ventures and alliances both between Public Enterprises and between Public and Private Enterprises are being worked out. That truly is a healthy development. Such joint ventures and public-private partnerships can help the public sector benefit from the private sector’s competitive advantages where ever it might exist”.

33. P. Chidambaram (2008) (Finance Minister) said that the “Surveys have shown a vast majority of people at the grassroots level feet that disinvestments or privatization of public sector is not always the best, without consensus on the issue, there is no way to take forward this agreement. I believe we must approach disinvestments very objectively. Disinvestment should not be equated with privatization and nor should it be considered the only way of reforming the public sector”.
1.4. Need and Scope of the Study

Disinvestment of public sector enterprises had always been a hotly contested and needlessly controversial issue in the Indian economic scenario. Whether, it is related to methodology, valuation, or selling of profit making enterprises. The present study gives a comprehensive view of the disinvestment programme in India; it highlights the issues arising during the disinvestment of various public sector enterprises in India. A case study of Videsh Sanchar Nigam Ltd. has been undertaken to review the programme. The study gives suggestions, recommendations and future strategies for the effective implementation of disinvestment programme in India. As India is slowly moving from a closed economy to a competitive one. 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. The role of organizational culture and management of various interest groups is crucial to a successful disinvestment programme. The study is important as it finds that the process of disinvestment in India has been inadequate 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 disinvestments go to the enterprise not like India where the government use the disinvestment proceeds for reducing its fiscal burden. The suggestions and recommendations of the study will help the policy makers to chalk out
the proper policies regarding future disinvestment in India. It would also be helpful for the management of the privatized enterprises to overcome their existing difficulties in running their industries effectively. The present study is useful as it focuses that 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.

1.5. Objectives of the Study

The purposes of the study are as follows:
1. To evaluate the performance of public sector enterprises in India.
2. To examine the nature of disinvestment policy and issues.
3. To develop base for further researches on the subject matter of disinvestment.
4. To make contribution to the existing stock of knowledge on disinvestments of shares of public sector enterprises in India.
5. To suggest strategies for future disinvestment.
6. To advance knowledge by suggesting solutions to contemporary problems.
7. To draw conclusion and suggest recommendations for productive disinvestment.
8. To propose measures relating to better functioning of public sector enterprises.

1.6. Hypotheses

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.
Hypothesis One: 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. It has also been observed that the functioning of many public sector units is characterized by low-productivity, unsatisfactory quality of goods, excessive manpower utilization, inadequate human resource development and low rate of return on capital.

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<th>Table-1: Table for Paid Up Capital</th>
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<td><strong>Paid up capital</strong></td>
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Thus to improve the level of economic performance of enterprises both on production and distribution fronts and for generating fiscal incomes through sale of assets. Disinvestment of public sector units was considered as a panacea for a debt ridden economy like India.

**Hypothesis Two:** The findings of the present study have brought to fore that the disinvestment programme undertaken in India till now have some pitfalls as 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.

Further disinvestment proceeds could be used:-

1. for creating National Renewal fund for assistance to workers in unorganized sector.
2. for special employment schemes in backward areas.
3. for meeting voluntary retirement scheme needs.
4. for creating a restructuring fund for public sector units.
5. to fund social and infrastructure sectors.
6. for creating worker’s safety net.
7. for public debt reduction.
8. for creating disinvestment fund to direct proceeds for specific uses.
Hypothesis Third: The findings of the chapter - 5 proves that VSNL's a Cash Rich public sector enterprise has become from 'Good to better' enterprise within a period of five years after disinvestment. The above statement is also supported by the following data showing the performance of VSNL after disinvestment.

**EBIDTA of VSNL**

*(Earning Before Interest, Depreciation Taxes and Amortization)*

![Graph showing EBIDTA of VSNL from 2003-04 to 2007-08]

*Source: VSNL Annual Report, 2003, 04, 05, 06, 07, 08*
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 enterprise carriers and retail consumers. VSNL's customer base includes 1500 Global carriers, 450 mobile operators, 10,000 enterprises, 1,00,000 broadband and internet subscribers and 300 wi-fi public hotspots. VSNL has offices in over 35 countries including the united states of America, Canada, the United Kingdom, South Africa, Singapore, Hong Kong, Sri Lanka and India. 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. Further the progress of VSNL can be analysed as follows:

b. In 2006, VSNL completes acquisition of teleglobe international holdings ltd.
c. 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.
d. VSNL has been chosen as the network administrator for one of the world's largest and sophisticated trans continent cable systems - SEA - ME - WE 4 (South East Asia - Middle East - Western Europe)
e. VSNL's Wireless Fidelity (wi-fi) enables computers to use high speed internet without the need for any wires or cables.
f. In 2008, VSNL, VSNL International and Teleglobe have being united as Tata communications.

Currently the company has 52 subsidiaries in 21 countries as well as operations across four continents. VSNL International a subsidiary of the company, takes care of its international operations. It offers the greatest diversity for connectivity services to India. This is coupled with a powerful domestic network that covers over 300 cities in India.

**Hypothesis Fourth:** 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 which are given in Chapter – 6 for the effective implementation of disinvestment programme in India like what to sell and how to sell?

1.7. **Research Design and Methodology**

The data for the present study have been collected basically from the secondary sources. Annual reports of ministry of disinvestment, research reports of world bank, debates and seminars, visual analysis of different websites concerning disinvestments, company annual reports, annual reports of the Bureau of public enterprises, economic survey annual reports, public sector enterprises survey reports, reserve bank of India annual reports, Ministry of Finance, Industry and labour, government of India and a centre for monitoring Indian economy.

A number of professional bodies such as federation of Indian chambers of commerce and industry, VSNL Annual Reports, VSNL international website, leading dailies like the economic times, The
financial express, The Hindustan Times, The Times of India, The Tribune - Chandigarh, India - Business have being studied for latest information on the subject. Besides this various magazines like frontline (India’s National Magazine, from the publishers of Hindu group, Business line, India Today, Business Today, Economic and Political weekly, Pratiyogita Darpan, Indian Economy Edition, Civil services chronicle Indian economy, Special edition of various years, Journal of monetary economics, Journal of Public Economics, Journal of political economy have been studied to have a clear view of disinvestment programme in India.

Further various research papers and publications have also been studied profoundly like working papers of National Bureau of Economic Research, rage publications, Bombay : Himalaya House Publications, Pragati Publications and Vidhi’s manual.

1.8. Scheme of Chapterization

The study is divided into six chapters.

1. Chapter - I is an introduction to the study. It gives a brief discussion of disinvestments, 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.
2. **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.

3. **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 fixed by the government and actual realization of disinvestment proceeds from the years 1991-2007.

4. **Chapter - IV** This chapter 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.

5. **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.

6. **Chapter VI** sums up the study with suitable suggestions and recommendations for the effective implementation of future disinvestment programme in India.
References


27. Bimal Jalan (Former RBI Governor), "Different Views on Disinvestment Possible", The Tribune – Chandigarh – India – Business Line, May 18, 2004, Tuesday.


