CHAPTER –III
NON –STRATEGIC CENTRAL PUBLIC SECTOR UNDERTAKINGS – AN OVERVIEW

3.1. INTRODUCTION

Public Enterprises have become a world-wide phenomenon in the twentieth century. Public Enterprises gradually extend tentacles over the ownership of the means of production and distribution. The operation of Public Enterprises in an economy is highly beneficial to the public in general and economic activities in particular.

In 1905, the Government established Department of Commerce and Industry to encourage industrialization in the country. The Industrial Commission was appointed in 1916 for analyzing Indian industrial scene, which recommended that a very active policy of the Government for encouragement of industry in key areas is necessary. The constitutional reforms of 1919 focused on development of industries and stated it should be a provincial subject of the Central Government leaving only general direction, technical and industrial education to it. In 1931 the Congress party’s Karachi session resolved that the State shall own or control key industries. In 1937, the Government emphasized the need for industrialization by drawing up a comprehensive national plan for achieving it. In 1944, the Department of Planning and Development issued a statement on the industrial policy declaring that the basic industries of national importance be nationalized. The 1948 industrial policy resolution accepted the inevitability of State ownership in three categories of industries covering manufacturing of arms and ammunition, production of atomic energy and ownership and management of railways.

Public Enterprise is an activity of a business character, managed and owned, 51 percent or more, by the Government– Central, State or Local, providing goods/services for a price.

In 1963, the Estimates Committee in its 32nd Report recommended the broad principles regarding financial and economic obligations of Public Enterprises. The
Economic Administration and Reforms Commission (ARC) in its “Report on Public Sector Undertakings”, 1967 recommended that the Government should make a comprehensive and clear statement on the objectives and obligations of Public Enterprises.

The major objectives are contained in notes and papers of the respective enterprises. The general or idealistic objectives are stated in the Acts of incorporation, Memorandum of Association and Memorandum of Understanding. In Statutory Corporation the objectives are stated in the “Statement of Objects and Reasons” attached to the bill introduced in the Parliament. The Government constituted commissions (ARC and Jha Commission) and committees (Arjun Sen Gupta committee, Select Committee and Estimates Committee) to recommend objectives after evaluation.

In the 13th Report on “Management and Administration of Public Undertakings” the COPU in 1973 indicated the need for specific objectives. In 1968, the Select Committee on Nationalised Industries suggested that “the limits of nationalized industries’ responsibility in regard to social obligations and economic objectives should be made plain”.

The COPU in its 14th Report opined that Government adopted indifferent policy towards the enunciation of financial, economic and social objectives of Public Enterprises. It recommended a framework of principles of Government’s economic, financial and social strategy for Public Sector Enterprises, to review periodically the micro objectives and to quantify the social objectives and obligations.

The National Convention of Public Enterprises in 1976 stressed the need for declaring the national objectives of Public Enterprises and to formulate corporate objectives by individual enterprises. Economic Administration and Reforms Commission and Jha commission in 1984 recommended autonomy and accountability of Public Enterprises for aggregate performance and achievements.
The Arjun Sen Gupta Committee recommended that the Government should primarily be concerned with strategic planning and policy. It also stated that the Government should ensure appropriate returns on investment in Public Enterprises consistent with plan objectives. The intervention of the Government in Public Enterprises in day to day functioning should be minimized and strict accountability for performance of the goals should be imposed.

**Nationalisation Policy in India**

The concept of nationalization is the result of industrial revolution and the doctrine of *laissez faire*.

In India the nationalization measures since independence are need-based rather than socialist ideology. Nationalization of nine air companies in 1953 was for financial revival. Nationalization of Imperial Bank of India into State Bank of India in 1955 was for the reason that failure of the former to open branches in rural areas. Nationalization of 170 insurance companies in 1956 was due to failure to spread the message of life insurance to masses and ensure the concept of trusteeship. The reason for nationalization of 20 commercial banks in 1969 and 1980 was for serving the masses. Nationalization of 107 general insurance companies in 1971 was for pragmatic and political reasons. The coal industry was nationalized with the socialist objective and to raise consistent resources for the growing requirements. Oil companies were nationalized to make the product strategic. Nationalization of 110 sick textile units was for its revival. The general objectives of nationalization are:

1. To have effective control over the strategic and basic sectors of the economy.
2. To ensure better utilization of the productive resources and to serve priority sectors and weaker sections
3. To protect employment and to safeguard the interests of the employees.
4. To take necessary action for development of the industry.
5. To save the production capacity of terminally sick units.
In the Economic Survey February 2000-2001, presented to Parliament, the policy of the Government was to convert departmental enterprises into companies for infusing with commercial culture and subjecting them to market incentives and competitive pressures.

### Table 3.1

**Five year plans and public sector policy**

<table>
<thead>
<tr>
<th>Five year plans</th>
<th>Year</th>
<th>Public sector policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>I five year plan</td>
<td>1951-1955</td>
<td>Socialist pattern of society</td>
</tr>
<tr>
<td>II five year plan</td>
<td>1956-1961</td>
<td>Prevent concentration of economic power and growth of monopolistic tendencies</td>
</tr>
<tr>
<td>III five year plan</td>
<td>1961-1966</td>
<td>Dominant for higher production and distribution of consumer goods.</td>
</tr>
<tr>
<td>IV five year plan</td>
<td>1969-1974</td>
<td>Production of basic strategic goods and rehabilitation of public sector</td>
</tr>
<tr>
<td>V five year plan</td>
<td>1974-1979</td>
<td>Liberalisation through large scale delicensing – consolidation, improvement and modernisation</td>
</tr>
<tr>
<td>VI five year plan</td>
<td>1982-1985</td>
<td>Improving strategic, high tech and infrastructure sectors and referring sick units to BIFR</td>
</tr>
<tr>
<td>VII five year plan</td>
<td>1985-1990</td>
<td>Roll back of public sector and strengthen PSUs as commercial enterprises</td>
</tr>
<tr>
<td>Industrial policy statement (NEP)</td>
<td>1991</td>
<td>Retain majority stake in CPSUs and dilute 26% equity in non-strategic CPSUs</td>
</tr>
<tr>
<td>VIII five year plan</td>
<td>1992-1997</td>
<td>Disinvestment of 10% equity in profit making non-strategic CPSUs and listing of shares stock exchange</td>
</tr>
<tr>
<td>IX five year plan</td>
<td>1997-2002</td>
<td></td>
</tr>
<tr>
<td>XI five year plan</td>
<td>2007-2012</td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Five year plans, Government of India

Experts in Government have suggested that all unlisted PSUs should be listed on stock exchange by diluting a minimum 10% of Government equity. The proposal is part of the Government’s internal exercise to evolve a strategy for PSUs in the 11th five year plan. (2007-2012). The economic policy and institutional reform agenda in the 11th plan
focuses on completing the disinvestment agenda. About 5-10% of the Government’s equity in previously identified profit-making non-navratnas should be divested. The dilution of Government’s equity in profit-making non-navaratnas is through initial public offerings. For the loss-making PSUs, it is auctioned and negative bidding in the form of debt write-off allowed in those cases where net worth is zero. Listing of PSUs is expected to minimize the Government’s interference in the management of these companies. The listed companies tend to perform better in a competitive environment.¹

3.2 - OPERATIONAL DEFINITIONS

3.2.1 New Economic Policy (NEP)

The New Economic Policy (NEP) is a policy introduced in the financial year 1991 for the economic reforms undertaken by the Central Government in the era of Liberalisation, Privatisation and Globalisation.

3.2.2 - Business enterprise

A business enterprise implies that the Government expects a return on capital invested, and the goods and services are made available for a price, which may be adjusted from time to time to cover the cost of inputs.

3.2.3 - Industrial Policy Resolution

The Industrial Policy Resolution is a resolution passed by the Central Government in both the houses of parliament for a financial year or for a five year plan period for the industrial development in public and private sectors.

3.2.4 - Liberalization, Privatisation and Globalisation (LPG)

Liberalisation involves a greater role for the market forces to the functioning of institutions. It is called as laissez faire doctrine opposing Government interference in economic affairs beyond the minimum necessary.

Privatisation is the roll back of the state in the lives and activities of citizens and strengthening the role of markets. It is transferring the ownership from public to private sector or transfer of control over the assets or activities.

Globalisation means world economic integration through free movement across national borders of:

- Financial capital represented by investment in capital markets and money markets.
- Physical capital represented by plant and machinery
- Technology and
- Labour.
3.2.5 – Nationalisation

Nationalisation is a concept of bringing a particular sector or business firms under the uniform policy and regularization. It is process of eliminating capitalism and bringing in socialism making the sector or industries under public ownership.

3.2.6 – Five year plan

The plan enunciated by the Central Government for period of five years in its policy document for economic development.

3.2.7 – Strategic group

The industrial activities or industries belonging to sectors of national importance engaged in manufacture of arms and ammunition and allied items of defence equipment, defence aircraft and warships, atomic energy and related minerals and railway transport services.

3.2.8 – Non-strategic group

The industries or industrial activities other than sectors reserved for strategic sector.

3.2.9 – Core group

The industries belonging to sectors with intensive capital or technology and the basic industries with extensive and dispersed forward linkages are called as core group.

3.2.10 – Non-core group

The industrial sector where the forces of competition have made the market fully contestable and the Public Enterprises have no unique or special responsibilities is called as non-core group.
3.2.11 - Sick CPSUs

A CPSE will be considered ‘sick’ if it has accumulated losses in any financial year equal to 50% or more of its average net worth during 4 years immediately preceding such financial year and/or a CPSE which is a sick company within the meaning of Sick Industrial Companies (Special Provisions) Act (SICA), 1985.

3.2.12 - Administrative Ministry

A ministry of the Central Government concerned with the administration of the central public enterprise or undertaking in direction, supervision and control of the Board.

3.2.13 - Department of Public Enterprise (DPE)

A department constituted exclusively for the purpose of central public sector enterprises or undertakings. DPE is a data bank and a clearing house for information relating to organizational structure and pricing policies. It is responsible to compile and analyze information and presents a factual report to parliament, provide technical and expert assistance to ministries for evaluation of projects reports and study the common problems, advise on wage policies, furnish periodical reports to parliament and Government on the working of CPSUs and to coordinate the work of parliamentary committees.

3.2.14 - Public Enterprises Selection Board (PSEB)

Public Enterprises Selection Board is a professional body constituted by the Government for the purpose of selecting and recommending appointment of all Board level positions for CPSUs. The suitable personnel for appointment to the post of Part-time chairman, Chairman-cum-Managing Director, Managing Director and Full-time functional executive director are selected for appointment and recommended by PSEB.

3.2.15 - Appointment Committee of the Cabinet (ACC)

The final appointing authority of the members of the Governing Board is Appointments Committee of the Cabinet.
3.2.16 - **Standing Conference of Public Enterprise (SCOPE)**

SCOPE is an institutional media constituted with the object of unifying the Public Enterprises and the Government. This body is responsible to initiate sponsor and undertake research projects, promote better understanding of the role and performance of the public sector and stimulate and provide knowledge on Public Enterprises in India and abroad.

3.2.17 – **Governing Board**

Governing Board is the top management organ responsible for implementing the objectives of an enterprise. The Board assure that the enterprises is being managed properly at the technocrat level, confirms with the objectives of society and its value and it achieves a proper balance among various interest groups.

3.2.18 - **Public Investment Board (PIB)**

PIB is a board formed by the Government of India for the purpose of scrutinizing and approving investment decisions in various projects and business ventures taken by the CPSUs in India and abroad.

3.2.19 – **Navratnas and Miniratnas**

The Navratnas and Miniratnas are status conferred to consecutively profit making CPSUs to independently decide on capital investment decisions in new projects, modernization programmes and purchase of equipments up to a limit and to establish joint ventures and subsidiaries in India and abroad.

3.2.20 - **State owned enterprises (SOEs)**

The enterprises or commercial establishments formed by the Central or State Government with 51% to 100% equity capital with a social objective is called as SOE.
3.3 CLASSIFICATION OF CENTRAL PUBLIC SECTOR UNDERTAKINGS

The policy statement was issued in April, 1956 by the Government to give a new orientation to the “mixed economy” concept. This Policy Resolution categorised industries into three groups.

1. Industries exclusively reserved for development by the State viz., arms and ammunitions, iron & steel, heavy castings and forging, heavy plant and machinery required for iron and steel production and mining, heavy electrical plant, coal and lignite, zinc, copper, lead, aircraft, ship building and telecommunication equipment.

2. Industries which is progressively State owned and in which the State will, generally take the initiative in establishing new undertakings but in which private enterprise will also be expected to supplement the efforts of the State. These include aluminum, fertilisers, other minerals, machine tools, ferro-alloys and tools, basic and intermediate products required by chemical industries, antibiotics and other essential drugs, synthetic rubber, carbonisation of coal, chemical pulp, road transport and sea transport.

3. The remaining industries were left open for private sector initiatives. In the context of the significant changes in fiscal, monetary, trade and industrial policies, the need for a review of the continued presence of the public sector in a wide range of activity was felt in the nineties.

The Industrial Policy Resolution of 1991(Notification No. 477(E) dated 25.7.1991) and subsequently in March 1993, stated six industries for exclusive operation in public sector. The developments since then were:

(i) De reservation of mining activity with coal extraction permitted for captive utilisation by industrial users.

(ii) Invitations have been extended to private sector to invest in oil exploration and refining, which was reserved for public sector, and as well as in infrastructure projects like roads, ports and telecom.

(iii) Private sector venture in power generation even with 100 % foreign equity is allowed.
In the post 1991 scenario, the Rangarajan Committee report on Disinvestment of Shares of Public Sector Enterprises recommended target level of disinvestment. The Committee concluded that the percentage of equity to be disinvested should be generally below 49 % in industries reserved for the public sector and over 74 % in other industries.

The classification of Public Sector Enterprises is made on basis of general, industrial, departmental and non-departmental, reservation, strategic and non-strategic, core and non-core and sectoral.

The general bases of classification are

1. Based on legal definition:
   (i) Joint stock company.
   (ii) Public or statutory corporation.
   (iii) Departmental enterprise.
   (iv) Co-operative society.

2. Based on ownership:
   (i) Fully owned by the Government.
   (ii) Owned by Government through companies and corporations.
   (iii) Owned jointly by Central and State Governments.
   (iv) Owned jointly with a foreign party.
   (v) Owned jointly with Indian public.

3. Based on sectors:
   (i) Enterprises engaged in construction.
   (ii) Enterprises producing and selling goods.
   (iii) Enterprises rendering commercial services.
   (iv) Promotional and developmental enterprises.

4. Based on level of role in an industry:
(i) Complete presence.
(ii) Partial but substantial presence.
(iii) Partial and small presence.

5. Based on origination:
   (i) Inherited from colonial rulers.
   (ii) Acquisition of domestic or private capital.
   (iii) State entrepreneurship.
   (iv) Take over of sick units.

The Central Public Sector Enterprises are classified into two broad categories, namely, departmental and non-departmental

1. Non-department enterprises in the form of Government Companies and Statutory Corporations.

2. Departmental enterprises.

The non-departmental enterprises indulge in the following activities:

a) Production of goods.
b) Trading.
c) Services.
d) Term finance – general and specific.
e) Finance and general development.
f) Development and support to agriculture.
g) Generation and distribution of electricity.
h) Production of defence goods and equipment.
i) Insurance and Banking.
j) Social and welfare.

The departmental enterprises belong to strategic sector covering:

a) Indian railways and its manufacturing units.
b) Ordnance factories.

c) Government printing and publishing units.

d) Telecom and postal services.

e) Opium and alkaloid factories.

The production of goods in the non-departmental category is reclassified into:

(i) Capital goods manufacturing heavy, medium and light engineering goods.

(ii) Basic raw materials in the segments of steel, coal, minerals, metals, petroleum, chemicals and fertilizers.

(iii) Consumer goods manufacturing textiles, photo films, paper, newsprint and cement.

(iv) Electronics.

In the services category the non-departmental enterprises are:

(i) Transportation services.

(ii) Contracts and construction services.

(iii) Technical and consultancy services.

(iv) Tourism services.

The total number of non-departmental Central Public Sector Units (CPSUs) is 242 out of which undertakings engaged in production of goods and providing services are 160 and 75 respectively. The units in banking and insurance sector are 11.

The following table provides category-wise classification and number of CPSUs engaged in production of goods.
Table 3.2
Table showing classification and number of CPSUs in production of goods

<table>
<thead>
<tr>
<th>Serial No.</th>
<th>Category</th>
<th>Number of units</th>
</tr>
</thead>
<tbody>
<tr>
<td>01.</td>
<td>Iron and Steel</td>
<td>07</td>
</tr>
<tr>
<td>02.</td>
<td>Minerals and Metals</td>
<td>11</td>
</tr>
<tr>
<td>03.</td>
<td>Coal and Lignite</td>
<td>09</td>
</tr>
<tr>
<td>04.</td>
<td>Petroleum</td>
<td>14</td>
</tr>
<tr>
<td>05.</td>
<td>Fertilizers</td>
<td>08</td>
</tr>
<tr>
<td>06.</td>
<td>Chemicals and Pharmaceuticals</td>
<td>21</td>
</tr>
<tr>
<td>07.</td>
<td>Heavy engineering</td>
<td>15</td>
</tr>
<tr>
<td>08.</td>
<td>Medium and Light engineering</td>
<td>23</td>
</tr>
<tr>
<td>09.</td>
<td>Textiles</td>
<td>14</td>
</tr>
<tr>
<td>10.</td>
<td>Power</td>
<td>04</td>
</tr>
<tr>
<td>11.</td>
<td>Transportation equipment</td>
<td>12</td>
</tr>
<tr>
<td>12.</td>
<td>Consumer goods</td>
<td>18</td>
</tr>
<tr>
<td>13.</td>
<td>Agro based industries</td>
<td>04</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>160</td>
</tr>
</tbody>
</table>


The following table provides category-wise classification and number of CPSUs engaged in providing services.

Table 3.3
Table showing classification and number of CPSUs in providing services

<table>
<thead>
<tr>
<th>Serial No.</th>
<th>Category</th>
<th>Number of units</th>
</tr>
</thead>
<tbody>
<tr>
<td>01.</td>
<td>Trading and marketing</td>
<td>17</td>
</tr>
<tr>
<td>02.</td>
<td>Transportation services</td>
<td>09</td>
</tr>
<tr>
<td>03.</td>
<td>Contract and construction services</td>
<td>10</td>
</tr>
<tr>
<td>04.</td>
<td>Industrial development and technical services</td>
<td>13</td>
</tr>
<tr>
<td>05.</td>
<td>Tourism services</td>
<td>09</td>
</tr>
<tr>
<td>06.</td>
<td>Financial services</td>
<td>07</td>
</tr>
<tr>
<td>07.</td>
<td>Telecommunication services</td>
<td>02</td>
</tr>
<tr>
<td>08.</td>
<td>Section 25 companies</td>
<td>08</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>75</td>
</tr>
</tbody>
</table>

Source: Laxmi Narain, P.36.

Strategic & Non-strategic Classification

On 16th March 1999, the Government classified the Public Sector Enterprises into strategic and non-strategic areas for the purpose of disinvestment. It was decided that the Strategic Public Sector Enterprises would be those in the areas of:
(i) Arms and ammunitions and the allied items of defence equipment, defence aircrafts and warships,

(ii) Atomic energy,

(iii) Minerals specified in the schedule to Atomic Energy (Control of Production and use) Order 1953, and

(iv) Railway transport is the exclusive preserve of the public sector. A perusal of the above list would imply that these industries are important from the national security angle

All other Public Sector Enterprises were to be considered non-strategic.

Cabinet classified the PSUs into strategic and non-strategic areas.

1. Strategic PSUs:
   - Defence related
   - Atomic energy related, with some exceptions
   - Railway transport

2. Non-strategic PSUs:
   - All others

For the non-strategic Public Sector Enterprises, it was decided that the reduction of Government stake to 26% would not be automatic and the manner and pace of doing so would be worked out on a case-to-case basis. A decision in regard to the percentage of disinvestment i.e., Government stake going down to less than 51% or to 26%, would be taken on the following considerations:

   - Whether the industrial sector requires the presence of the public sector as a countervailing force to prevent concentration of power in private hands, and
   - Whether the industrial sector requires a proper regulatory mechanism to protect the consumer interests before Public Sector Enterprises are privatised.

**Core Group**

In sectors which are capital or technology intensive, the most prevalent market structure may be an oligopoly. In some of these sectors, CPSUs have a considerable market presence and the private sector is yet to mature fully. It is desirable to continue a
public sector presence in these basic industries till such time that the market becomes fully competitive. By this analysis, such industries may be classified as “core” and public sector disinvestment is limited to a maximum of 49%. The composition of “core” industries may change over a period.

**Non-Core Group**

The industries driven by demand—supply imbalances and does not have unique or specific responsibilities are categorised as non-core, in which 74% are more equity is disinvested.

<table>
<thead>
<tr>
<th>Group</th>
<th>Name of the CPSUs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Core</td>
<td>ONGC, OIL, BRPL, SAIL, MTNL, GAIL, AI, CONOR, PHL, NLC, NCL, SECFL, WCFL, BALCO, NALCO, IBP, NTPC, PGCIL, NHPC, KIOCL.</td>
</tr>
<tr>
<td>Non-core</td>
<td>SCI, ITDC, IPCL, FACT, NFL, MFL, HCIL HTL, ITI, MFIL, HLL, BEML, HCL, HZL, MOIL</td>
</tr>
</tbody>
</table>

**Source:** www.divest.nic.in

**Industry Grouping**

With this framework in place, the Commission has classified the 40 referred PSUs.

The classification of Bharat Electronics Ltd. (BEL), Garden Reach Shipbuilders & Engineers Ltd. (GRSEL), Hindustan Aeronautics Ltd. (HAL), Rail India Technical & Economic Services Ltd. (RITES) and Engineers India Ltd. (EIL) was considered by the Commission later.

The DPE survey classifies all the 242 central PSUs into 21 industry segments. The PSUs referred belong to 14 industry, 28 PSUs belong to the manufacturing sector, with the remaining 12 in the service sector.
Table 3.5
Analysis by Industry Classification

<table>
<thead>
<tr>
<th>Industry</th>
<th>No</th>
<th>Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>MANUFACTURING</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fertilisers</td>
<td>3</td>
<td>FACT, NFL, MFL</td>
</tr>
<tr>
<td>Petroleum</td>
<td>5</td>
<td>ONGC, OIL, GAIL, BRPL, IBP</td>
</tr>
<tr>
<td>Chemicals</td>
<td>1</td>
<td>IPCL</td>
</tr>
<tr>
<td>Coal &amp; Lignite</td>
<td>4</td>
<td>NCF, SECF, WCF, NLC</td>
</tr>
<tr>
<td>Power</td>
<td>2</td>
<td>NTPC, NHPC</td>
</tr>
<tr>
<td>Minerals &amp; Metals</td>
<td>6</td>
<td>HZL, HCL, BALCO, NALCO, KIOCL, MOIL</td>
</tr>
<tr>
<td>Steel</td>
<td>1</td>
<td>SAIL</td>
</tr>
<tr>
<td>Medium &amp; Light Engg.</td>
<td>3</td>
<td>BEL, HTL, ITI</td>
</tr>
<tr>
<td>Transportation Equip.</td>
<td>3</td>
<td>BEML, HAL, GRSEL</td>
</tr>
<tr>
<td><strong>SERVICE</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Telecom Services</td>
<td>1</td>
<td>MTNL</td>
</tr>
<tr>
<td>Transportation Services</td>
<td>4</td>
<td>AI, PHL, SCI, CONCOR</td>
</tr>
<tr>
<td>Industrial Redevelopment &amp; Technical Consultancy</td>
<td>3</td>
<td>EIL, RITES, PGCIL</td>
</tr>
<tr>
<td>Tourist Services</td>
<td>2</td>
<td>ITDC, HCIL</td>
</tr>
<tr>
<td>Consumer Goods</td>
<td>2</td>
<td>HLL, MFIL</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>40</td>
<td></td>
</tr>
</tbody>
</table>

Source: www.divest.nic.in
3.4 - CENTRAL PUBLIC SECTOR UNDERTAKINGS - INVESTMENT AND GROWTH

Public Enterprises hold a strategic and important position in the economy and are a source of effective power to bringing Public Enterprises closer to the main administrative system over which the Government has direct control. It is important and necessary to improve the total administrative set-up than to effect improvement in individual Public Enterprises. The following is the analysis of CPSUs based on investment paid-up capital and growth referred to Disinvestment Commission.

Growth of Investment

The investment in public sector enterprises has grown enormously from Rs.29 crore as on 1.4.1951 to Rs.2,74,114 crore as on 31.3.2001. The growth of investment in the Central Public Sector Enterprises, including those enterprises that are under construction, over the years, is given below:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Total Investment</th>
<th>Enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>At the commencement of the 1st 5-Year Plan (1.4.1951)</td>
<td>29</td>
<td>5</td>
</tr>
<tr>
<td>At the commencement of the 2nd 5-Year Plan (1.4.1956)</td>
<td>81</td>
<td>21</td>
</tr>
<tr>
<td>At the commencement of the 3rd 5-Year Plan (1.4.1961)</td>
<td>948</td>
<td>47</td>
</tr>
<tr>
<td>At the end of the 3rd 5-Year Plan (31.3.1966)</td>
<td>2,410</td>
<td>73</td>
</tr>
<tr>
<td>At the commencement of the 4th 5-Year Plan (1.4.1969)</td>
<td>3,897</td>
<td>84</td>
</tr>
<tr>
<td>At the commencement of the 5th 5-Year Plan (1.4.1974)</td>
<td>6,237</td>
<td>122</td>
</tr>
<tr>
<td>At the end of 5th 5-Year Plan (31.3.1979)</td>
<td>15,534</td>
<td>169</td>
</tr>
<tr>
<td>At the commencement of the 6th 5-Year Plan (1.4.1980)</td>
<td>18,150</td>
<td>179</td>
</tr>
<tr>
<td>At the commencement of the 7th 5-Year Plan (1.4.1985)</td>
<td>42,673</td>
<td>215</td>
</tr>
<tr>
<td>At the end of 7th 5-Year Plan (31.3.1990)</td>
<td>99,329</td>
<td>244</td>
</tr>
<tr>
<td>At the commencement of the 8th 5-Year Plan (1.4.1992)</td>
<td>1,35,445</td>
<td>246</td>
</tr>
<tr>
<td>At the end of 8th 5-Year Plan (31.3.1997)</td>
<td>2,13,610</td>
<td>242</td>
</tr>
<tr>
<td>As on 31.3.1998</td>
<td>2,31,024</td>
<td>240</td>
</tr>
<tr>
<td>As on 31.3.1999</td>
<td>2,39,167</td>
<td>240</td>
</tr>
<tr>
<td>As on 31.3.2000</td>
<td>2,52,554</td>
<td>240</td>
</tr>
<tr>
<td>As on 31.03.2001</td>
<td>2,74,114</td>
<td>242</td>
</tr>
</tbody>
</table>

Source: Public Enterprises Survey, 2000-2001
The 40 PSUs referred to the Commission have a wide range of share capital. A frequency analysis on this parameter is presented in the table below:

### Table 3.7
**Analysis of Share Capital (Rs. Crore)**

<table>
<thead>
<tr>
<th>Range of Share Capital</th>
<th>No.</th>
<th>Name of the PSUs</th>
</tr>
</thead>
<tbody>
<tr>
<td>(&gt;5,000)</td>
<td>1</td>
<td>NTPC</td>
</tr>
<tr>
<td>(2,500 - 5,000)</td>
<td>3</td>
<td>SAIL, PGCIL, NHPC</td>
</tr>
<tr>
<td>(1,000 - 2,500)</td>
<td>5</td>
<td>NLC, ONGC, NALCO, NCF, SECF</td>
</tr>
<tr>
<td>(500 - 1,000)</td>
<td>4</td>
<td>GAIL, WCF, KIOCL, MTNL,</td>
</tr>
<tr>
<td>(250 - 500)</td>
<td>6</td>
<td>NFL, BALCO, HZL, FACT, HCL, SCI</td>
</tr>
<tr>
<td>100-250</td>
<td>7</td>
<td>IPCL, BRPL, AI, MFL, GRSEL, HAL, PHL</td>
</tr>
<tr>
<td>&lt; 100</td>
<td>14</td>
<td>OIL, EIL, ITDC, CONCOR, HCIL, HTL, ITI,IBP, BEML, BEL, MFIL, HLL, RITES, MOIL</td>
</tr>
</tbody>
</table>

**Total** 40

**Source:** Report I Disinvestment Commission, February 1997 North Block, New Delhi.

Despite huge investments shown above the Government has not even been able to achieve turnaround in any of the sick companies shown in the above table. Of the total operating 234 CPSUs as on 31.3.2001, 111 were loss-making and 66 were registered with the BIFR.

### Table 3.8
**Status of 66 PSUs registered with BIFR (as on 31.12.2001)**

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Status</th>
<th>No. of Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Declared No Longer Sick</td>
<td>3</td>
</tr>
<tr>
<td>2.</td>
<td>Dismissed As Non Maintainable</td>
<td>2</td>
</tr>
<tr>
<td>3.</td>
<td>Draft Scheme Circulated</td>
<td>13</td>
</tr>
<tr>
<td>4.</td>
<td>Failed and Reopened</td>
<td>5</td>
</tr>
<tr>
<td>5.</td>
<td>Revival Scheme Sanctioned</td>
<td>10</td>
</tr>
<tr>
<td>6.</td>
<td>Under Enquiry</td>
<td>9</td>
</tr>
<tr>
<td>7.</td>
<td>Winding Up Notice</td>
<td>6</td>
</tr>
<tr>
<td>8.</td>
<td>Winding Up Recommended</td>
<td>18</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>66</strong></td>
</tr>
</tbody>
</table>

**Source:** Report I Disinvestment Commission, February 1997 North Block, New Delhi.
The budget estimate of 2005-06 shows that dividends from PSUs rise by Rs 2,654 crore, over that of the revised estimates of Rs 13,437.03 crore. The Finance Ministry insisted on a 30% dividend payout by oil companies, and 20% by other profitable companies. The special dividend route is over and above that percentage and is usually decided on a one-to-one basis with the companies, by the Government.\(^2\)

The lack of adequate autonomy continues and PSUs rely heavily on Government funds for their investments, despite high leveraging capacity. PSUs are shying away from securing bank loans and raising money from the market. According to public enterprise survey 2004-05, AAI, Nalco, NMDC have high leveraging capacity. Despite having high cash reserves, PSUs are still relying on Government funds for their expansion. Their balance sheet reflects low debt and high cash balances.

### Table 3.9
**Government funds for Blue chip CPSUs (in Rs. Crore)**

<table>
<thead>
<tr>
<th>PSU</th>
<th>Equity</th>
<th>Debt</th>
<th>Cash</th>
</tr>
</thead>
<tbody>
<tr>
<td>MTNL</td>
<td>10,300</td>
<td>0</td>
<td>2,517</td>
</tr>
<tr>
<td>NALCO</td>
<td>4,697</td>
<td>0</td>
<td>755</td>
</tr>
<tr>
<td>NMDC</td>
<td>2,603</td>
<td>0</td>
<td>1,904</td>
</tr>
<tr>
<td>AAI</td>
<td>3,408</td>
<td>121</td>
<td>1,602</td>
</tr>
<tr>
<td>CONCOR</td>
<td>1,698</td>
<td>10.6</td>
<td>549</td>
</tr>
<tr>
<td>OIL</td>
<td>4,740</td>
<td>318</td>
<td>1,864</td>
</tr>
</tbody>
</table>

*Source: The Economic Times, 5th July 2006, P.7.*

PSUs are sitting on a mountain of cash. There is an amazing Rs. 2,59,576 crore of reserves and surplus, roughly 10% of GDP lying with the central PSUs. The sum comprises the reserves and surplus of 50 profitable central PSUs. The sum is locked up with PSUs as few of them have any major investing plans lined up. The petroleum sector have the reserves of Rs. 89,486 crore, the coal sector companies have Rs. 17,407 crore and BSNL a whopping Rs. 50,528 crore. For the PSUs as a whole, the aggregate investment plans are about Rs. 88,000 crore or one third of their reserves.\(^3\)

According to the Public Enterprises survey 2004-05, the return on investment (ROI) in public sector across the board in the first six months of 2005-06 has fallen to

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\(^3\) The Economic Times, 25th June, 2005, P.1.
10.36% from 10.77% in the fiscal. This comes even as the industry average for ROI ranges between 18-20% for both public and private sector enterprises in the manufacturing sector. The public sector survey figures that 172 PSUs have clocked a growth of 15.63% in turnover. PSUs have shown a fall in profitability.

The Government’s efforts to infrastructure-related activity seem to be paying-off. PSUs have shown record growth in areas such as steel, petroleum, minerals and metals, coal and lignite. All PSUs have shown 1% growth in terms of turnover over 2004-05 and 2005-06.

Table 3.10

<table>
<thead>
<tr>
<th>Company</th>
<th>Rs. in crore</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil and gas</td>
<td>80,490</td>
</tr>
<tr>
<td>Steel</td>
<td>9,537</td>
</tr>
<tr>
<td>Minerals and metals</td>
<td>2,868</td>
</tr>
<tr>
<td>Coal &amp; lignite</td>
<td>4,195</td>
</tr>
<tr>
<td>Power</td>
<td>4,688</td>
</tr>
<tr>
<td>Total</td>
<td>1,13,810.50</td>
</tr>
</tbody>
</table>


The other areas where Government-owned CPSUs have performed well include chemicals and pharmaceuticals, heavy engineering industries and transportation equipment they have shown a turnover growth of 23.66%, 16.15% and 16.48% respectively. Tourism, transportation and construction were the hi-fliers in the service segment, enjoying growth of 33.96%, 17.94% and 18.39% respectively.

The highlights of the performance of CPSEs during 2005-06 are as under:

i. The share of CPSEs in GDP at market price stood at 11.12 per cent in 2005-06, and 11.68 per cent in 2004-05.

ii. The cumulative investment in all CPSEs, as on 31st March, 2006 was Rs.3,93,057 crore. The share of manufacturing CPSEs in total investment was the highest at 51 per cent, followed by service CPSEs at 40 percent and mining CPSEs at 7 per cent during 2005-06.

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

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

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

vi. The share of ‘taxes and duties’ in net value addition of CPSEs at market prices during 2005-06 was the highest at 46 per cent, amongst all constituents. This as followed by ‘net profit’ (26 per cent), ‘salaries & wages’ (19 per cent) and ‘interest’ (9 per cent). 

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3.5 - ADMINISTRATION AND MANAGEMENT OF CENTRAL PUBLIC SECTOR UNDERTAKINGS

The Public Enterprise environment is a complex phenomenon and has not been adequately conceptualized. It is more unpredictable and less stable as compared to private enterprise, mostly because its socio–political contents are very large. The nature of a Public Enterprise environment is turbulent, confusing and the process of managing it is difficult.

According to Lord Beeching, a former chairman of the British Railways “In the case of private industry there is a single, clear and unchanging primary objective, and the management is free to optimize its behaviour in pursuit of that objective within a general framework of conditions imposed by law, practice, and opinion, which it hopes and expects, will also be reasonably stable. Its action is compatible and coherent. In the case of a nationalised industry, objectives are more numerous, more ambiguous and less distinguishable from qualifying conditions. They fluctuate in their supposed order of priority, not merely from Government, not even just from year to year, but almost from day-to-day at the whim of public and parliamentary opinion”.

The chart below vividly depicts the environment in which a Public Enterprise is functioning. It describes the complexity of the structure and the procedural aspects of CPSUs.
**Chart- 3.1 External Environment of Public Sector Undertakings**

- **President of India**
- **Planning Commission:**
  1. Project approval
  2. Monitoring information
- **Public Investment Board**
- **MPs & MLAs**
- **State Governments:**
  - Law & order
  - Industrial relations
  - Employment
  - Water, power.
- **Competitors**
- **Suppliers**
- **Customers**
- **Shareholders**
- **Supreme & High Courts**
- **Finance ministry**
- **Vigilance & CBI**
- **Labour ministry:**
  - Employment
- **Parliament:**
  1. Questions & debates
  2. COPU & other Committee
- **Comptroller & Auditor General of India**
- **Trade unions & Officers Associations**
  - General public
  - Academics
  - Press
- **Commissioner for Scheduled castes & tribes**

**Source:** Laxmi Narain, P.9.
Government machinery for administration of Public Enterprises

1. **Administrative Ministry:** Every CPSU is attached to one ministry or other. There are 37 ministries controlling CPSUs. The ministry-in-charge of an enterprise, called as administrative ministry provides a link between the enterprise and parliament. The officers hold shares in the companies under the ministry. The concerned minister of the ministry is advised in regard to appointments, policy formulation and control. Any communication or dialogue is routed through this ministry to parliamentary committees, CAG and other governmental agencies. The ministry is responsible for the sector of activity in the enterprise. The nature and extent of control exercised by different administrative ministries differ according to the approach of the ministries. The administrative ministry exercises a decisive control over the CPSU, acting as an owner with all legal rights. The ministry is empowered to make rules and regulations for the entire sector.

2. **Finance Ministry:** The additional funds needed and foreign exchange transactions of the CPSUs are dealt by this ministry. A representative of the finance ministry is nominated in the Board of the CPSU for maintaining financial discipline. This ministry is responsible to approve the schemes of financial nature.

3. **Other Ministries and departments:** The CPSUs recons with labour ministry, home affairs ministry, transport ministry, railway ministry for its dealings with the respective sectors. The investment decisions involving plan funds the CPSUs should be associated with the Planning Commission.

4. **Department of Public Enterprises (DPE):** The DPE or BPE is the coordinating agency for CPSUs constituted on the recommendations of Estimates Committee in 1965. The DPE is a data bank and a clearing house for information relating to organizational structure and pricing policies. It is responsible to compile and analyze information and presents a factual report to parliament, provide technical and expert assistance to ministries for evaluation of projects reports and study the common problems, advise on wage policies, furnish periodical reports to parliament and Government on the working of CPSUs and to coordinate the work of parliamentary committees.
DPE is under the charge of the Ministry for Heavy Industries and Public Enterprises. The DPE has five constituent divisions, the Financial Policy Division, the Management Policy Division, the MoU Division, the Administration and Coordination Division and Permanent Machinery of Arbitration. The Financial Policy Division comprises of the Public Enterprises Survey Unit, the Policy Planning Unit, disinvestment Unit and the Wages Policy Unit. The Management Policy Division comprises of Personnel Policy Unit, Training Unit and Performance Indicators and Works Norms Unit. The MoU Division comprises of MoU Unit, Data Bank and Computer Cell. Administration and Coordination Division comprises of Personnel Administration, Library, Parliament and Coordination, SC/ST Cell and Hindi Cell. Permanent Machinery of Arbitration provides a forum for settlement of commercial disputes between two or more CPSUs and between a Government department and CPSU.

The organizational pattern of public sector enterprises is based on grouping of CPSUs for better management, co-ordination and control. The grouping of similar enterprises under one management was to bring number of individual enterprises under governmental and parliamentary responsibility. The methods of grouping of CPSUs are

1. The Apex or multi-unit company (BHEL model).
2. The sector corporation as recommended by ARC study team.
3. The holding company (SAIL model).
4. The multi-purpose corporation grouped into a few units on regional or rational basis for administrative control.
5. A separate Ministry of CPSUs – one board of management for all CPSUs as recommended by Mr. A.D. Gorawala in the report on “the efficient conduct of the State Enterprises”.

PUBLIC ENTERPRISES SELECTION BOARD (PSEB)

The appointing authority of the members of the Governing Board is mentioned in the statute of the enterprises. In India, Public Enterprises Selection Board (PSEB) is a professional body responsible for selecting and recommending appointment of all Board
level positions for CPSUs from 1974. The PSEB has been entrusted by the Government to recommend the names of suitable personnel for appointment to the post of:

1. Part-time chairman,
2. Chairman-cum-Managing Director,
3. Managing Director and
4. Full-time functional director.

The final appointing authority is the Appointments Committee of the Cabinet (ACC) headed by the Prime Minister. PSEB is a part of the Department of Public Enterprise (DPE) which is shifted to the Department of Personnel from July, 1986.

**STANDING CONFERENCE OF PUBLIC ENTERPRISES (SCOPE)**

For improving the efficiency of CPSUs, an institutional media was formed with the object of unifying the Public Enterprises and the Government which was named as “New Horizon” under the Indian Societies Registration Act, 1970 and later renamed as Standing Conference of Public Enterprises in 1973. The objectives of SCOPE was to initiate sponsor and undertake research projects, promote better understanding of the role and performance of the public sector and stimulate and provide knowledge on it in India and abroad.

**GOVERNING BOARD**

Governing Board is vital for efficient functioning of a public enterprise, constituted with various specialists, experienced and highly competent persons. In the sphere of policy formulation, interpretation, direction and control of Public Enterprises, Governing Board plays a definite role. The entrepreneurial role of the Board refers to the decision making process comprising contriving, discovering and promoting innovation in a business enterprise. The trusteeship and entrepreneurial functions of the Board of CPSUs are:

1. Establishment of basic policies and general strategy.
2. Deciding on major financial matters.
3. Selection of key personnel.

4. Receiving reports on the working of the enterprise and passing judgment.

The constitution of the Board of directors are based on three types, namely

**a. Functional Boards:** A functional Board consists predominantly of professional full-time managers drawn from within the enterprise, each having a distinct top-level responsibility within the organisation. It consists of full-time members’ in-charge of particular functional areas, finance, marketing, production, personnel, Research and development.

**b. Policy Boards:** It is composed of persons outside the full-time managerial cadres of the enterprise. These Boards are legislative, supervisory and advisory in character. Functional responsibilities and execution of policies are taken by these Boards.

**c. Mixed or Policy-cum-Functional Boards:** The mixed Board consists of whole-time and part-time members. The former having specific fields of responsibility and later being the nominees of the Government with experience acting as non-officials. The CPSUs have mixed Boards with ideal composition of 50% full-time, 33% non-official part-time directors and the balance Government officials.

**Delegation of authority to governing boards in Public Enterprises**

The delegation of authority at different level varies according to the hierarchies established in the enterprises. The governing body has authority to delegate powers to lower levels. To execute the Board’s decisions, the Board delegates authority to the chief executive. The chief executive delegate’s authority to the general managers or the heads of functional departments and it sub-delegates to executives at all levels in the departmental hierarchy.

In Public Enterprises, the authority is inadequately delegated and not exercised effectively. The prevalence of the phenomenon is that a public sector executive is held responsible for individual decisions than for results. The decision taken is to be justified to the superior, Government auditors, parliamentary committee on public undertakings and the concerned ministry.
a) **Financial powers:** The Board can sanction capital expenditures and change the plan expenditure up to 10% as approved by the government. It can invite and accept tenders, present revenue budget before the Government for approval and is authorized to contact the financial institutions to meet financial requirements.

b) **Administrative powers:** The chairman, members of the Board and general managers are appointed by the PSEB approved by the Government. The public enterprise Board can form a subsidiary company, make rules governing the conditions of the employee’s provident fund, create reserves and special funds, make agreements for foreign collaborations and borrow, invest and distribute profits with the prior approval of the government.

The powers delegated is not uniform to all Public Enterprises, it varies in the cases of Navratnas, mini-ratnas, corporations, and other Government companies. The capital expenditure decisions of the Board is allowed within the following limits as given in the below table.

**Table 3.11**

**Showing the limit of capital expenditure decisions of the Governing Board Public Enterprises**

<table>
<thead>
<tr>
<th>Gross block (fixed assets and capital work-in-progress as per previous year balance sheet)</th>
<th>The limit of power to sanction expenditure without prior approval of Government as per approved budget and internal funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than Rs. 100 crore</td>
<td>Rs.10 crore</td>
</tr>
<tr>
<td>Between Rs. 100 to 200 crore</td>
<td>Rs. 20 crore</td>
</tr>
<tr>
<td>Above Rs. 200 crore</td>
<td>Rs. 40 crore</td>
</tr>
<tr>
<td>Above Rs. 500 crore</td>
<td>Rs. 100 crore</td>
</tr>
</tbody>
</table>


**Powers of the Board of Ratna and mini-ratna CPSUs:**

The Ratna CPSUs are empowered to incur capital expenditure without monetary ceiling, to enter into technology joint ventures, raise debt from domestic and international market, open offices abroad and to set-up joint ventures and wholly owned subsidiaries
India and abroad subject to an equity limit of Rs. 200 crore and 5% of the net worth in any one case and 15% of net worth of CPSUs for all joint ventures and subsidiaries in total.

The consistently profit-making 97 Miniratna CPSUs Boards’ were conferred with the powers of:

- Incurring capital expenditure on new projects, modernisation, purchase of equipment up to Rs. 300 crore or equal to their net worth, whichever is lower for category I CPSU.
- Incurring capital expenditure on new projects, modernisation, purchase of equipment up to Rs. 150 crore or up to 50% their net worth, whichever is lower for category II CPSU.
- Establishing joint ventures and subsidiaries in India and abroad, with the concurrence of administrative Ministry, within a limit of Rs.100 crore in one project not exceeding 5% of net worth or 15% of net worth in all joint ventures for category I CPSU.
- Establishing joint ventures and subsidiaries in India and abroad, with the concurrence of administrative Ministry, within a limit of Rs.50 crore in one project not exceeding 5% of net worth or 15% of net worth in all joint ventures for category I CPSU.
- Enter into technology joint ventures and strategic alliances subject to Government guidelines.

The category I miniratna should be continuously Rs.30 crore profit making CPSU for previous three years with positive net worth and not defaulted in Government loans and have not received budgetary support.

The category II miniratna is profit making with no profit criteria for previous three years with positive net worth and not defaulted in Government loans and have not received budgetary support.

The proposal to exercise these powers by Ratna and miniratna CPSUs should be presented to the Board consisting of Government directors, the finance director and concerned functional director. The decisions on the proposals are unanimous and audit committee of the Board with membership of non-official directors should confirm.
Navaratnas and miniratnas are given with the financial freedom by the cabinet to invest in new ventures and can spend up to Rs. 1,000 crore on one project or 10% of their net worth for all projects put together through joint ventures and subsidiaries. This means that CPSUs can go on a major expansion drive. Miniratnas in category I like MMTC, Nalco and OIL can spend up to Rs. 500 crore and category II miniratnas like HMT International, ITPO and Rites can invest up to Rs. 250 crore without asking for permission from the concerned administrative ministry.6

“CPSU Boards do not exhibit the freedom, dynamism and speed which are hallmarks of Boards of those large scale private enterprises, which are professionally managed”7.

The Estimates Committee has advocated for a Board of 3 to 4 members, one being the chairman.8

The Krishna Menon committee has favoured a small Board consisting of 5 to 9 members depending upon the size and the nature of the enterprises.9

**Recommendations of Economic Administration Reforms Commission (EARC) on Governing Board**

1) A person appointed to top position by virtue of background and experience should not be placed on probation and should be given a five-year contract.

2) The termination of the appointment of top executive should be approved by Appointments Committee of the Cabinet (ACC).

3) The replacement of a chief executive should be made after induction of selected person.

4) The level of remuneration should be determined with greater attention to conditions in the private sector.

5) The policy in appointing a single Chairman-cum-Managing Director rather that full time Managing director and a part time chairman should continue.

6 The Economic Times, 26th July, 2005, P.3  
7 Committee on Public Undertakings (COPU), Eighth Lok Sabha, 60th Report (1989-90), P.105.  
6) The Boards of Public Enterprises are executive bodies and their functioning has to be managerial rather than deliberative.

7) The creation of functional directors should be on the basis of a pattern evolved and there should be a minimum three functional directorships in all enterprises regardless of the size.

8) The association of Government officials with the Board provides a liaison role and a channel of communication between the Government and public enterprise.

9) The number of directorships reflecting special concerns or interests should be reviewed and minimised for harmonious functioning of the board.

10) The dual role of the Government directors should be clear as a director of the company and as a representative of the government.

11) References to the Ministry for approval, sanction, clearance should be addressed to the officer who is the Government representative on the Board.

12) Each senior officer of the Ministry is to handle a manageable number of Public Enterprises.

13) The functioning of the Board should be professional, managerial and decisive. A reasonable balance between the number of full-time directors and Government directors on one hand and non-officials part-time directors on the other should be maintained.

14) The part-time directors should be experts in management and accountancy drawn for appointment from professional institutes.

15) The part-time and non-official directors should be given a spell of three years at a time and a degree of continuity on rotational retirement in the board to be maintained.

**Recommendation of Arjun Sen Gupta Committee on constitution of Governing Boards**

1) The tenure of chief executives and full-time directors should be 5 years subject to probationary period of one year and removal at three months notice.
2) The Appointments Committee of the Cabinet (ACC) should decide the non-confirmation or dismissal of a chief executive after taking into account the views of PSEB.

3) The appointment of non-official directors should be with prior consultation of chief executive and should have tenure of 3 years.

4) All positions except chief executive and functional directors should be filled-up by the Board.

5) The chief executives and functional directors of sick and high technology units may be given a higher pay scale on flexible basis.

6) The gap in remuneration of chief executive and functional directors of Public Enterprises and private sector should be less.

7) The disciplinary proceedings against employees below the Board level should be empowered to Board.

8) The performance of the chief executive should be evaluated according to agreed parameters.

9) Every enterprise must submit to its Board, a man-power budget and training plans for executives.

10) The mobility of management personnel between Public Enterprises should not be discouraged.

The recommendations of Standing Conference of Public Enterprises (SCOPE) on Governing Board

The SCOPE, apex organisation of public sector enterprises made a study entitled “Board of Directors of Public Enterprises and recommended the following on the Governing Board of Public Enterprises:\n
1) The bureaucratic domination, through governing boards should be minimised.

2) Improvement in their functioning and autonomy should be ensured.

3) Efforts should be made to increase the managerial efficiency.

\textsuperscript{10} The Economic Times, July 16\textsuperscript{th}, 1990, P. 6
4) The induction training should be given to Government directors before appointment.

5) The annual confidential reports of Government directors should take into account their contribution to the performance of Public Enterprises.

6) The Government director should provide an essential link between the Government and public enterprise.

7) The nomination of Government director should be limited to only a few Public Enterprises.

8) The Government directors should be appointed for three years and extended till the ministry continues.

The Department of Public Enterprises (DPE) advises on the shape and size of organisational structure of public sector enterprises at the Board level. The Public Enterprises are categorised in four Schedules namely ‘A’, ‘B’, ‘C’ and ‘D’ based on various quantitative and qualitative factors such as investment, capital employed, turnover, profit, number of employees, level of technology employed and competition from other sectors. The criteria for categorisation or re-categorisation of public sector enterprises, creation of additional Board level posts and grant of higher schedules of pay on personal basis to board level executives of Public Enterprises have been reviewed. In addition to quantitative and qualitative parameters other factors relating to share price, MOU ratings, classification of Navratna and mini-ratnas, ISO certification, value added per employee are taken into account for the purpose of upgradation of the CPSU.

The PSU boards should be inducted with 50% independent directors and the Department of Public Enterprises (DPE) is considers the demands from administrative ministries to restrict the number of functional directors on PSU boards to 4 to 5. Many navaratnas have a battery of company-promoted directors on the boards (SAIL-8, IOC & ONGC – 7, BHEL, NTPC & GAIL – 6 each). The DPE allows two Government nominees on PSU boards and list of promoters.11

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Ad hoc committee’s recommendations on administration of Public Enterprises

The Government appointed ad hoc committees to review the working of Public Enterprises for the purpose of framing and recommending administrative practices and policy initiatives.

1. The Action Committee: The five-man committee headed by Mr. M.S. Pathak was constituted on 31st December, 1971 and the suggestive measures for improving the performance of Public Enterprises. They are:
   a) Capacity utilization.
   b) Reduction of cost.
   c) Preventive maintenance.
   d) Labour relations and
   e) Research and development.

2. The Fazal Committee: A four member committee headed by Mr. Mohamed Fazal was appointed on 12th August, 1980 to identify the steps to improve performance of Public Enterprises and to draw up a time bound action programme for maximum capacity utilization and adequate control of operational cost. It was also to suggest improvements in management and operational efficiency in the working of the enterprise in the coal, steel, shipping, fertilizer and chemical and engineering sectors. The report of the committee was declassified in 1986.

3. The Jha Commission: The one man Economic Administration Reforms Commission headed by Mr. L.K. Jha submitted four reports on Public Enterprises.
   a) The top management and the Board.
   b) Autonomy and Accountability.
   c) Government clearances and approvals and
   d) The profitability of Public Enterprises.

4. The Sengupta Committee: A nine member committee with Dr. Arjun Sengupta as chairman was appointed in September, 1984, to analyse the performance of Public Enterprises, to identify their constraints and to suggest measures to improve their functioning.
Recommendations applicable to all PSUs

1. Professionalizing the Board

2. Provision for Elected Directors

3. Selection of Top Management

At present, Public Enterprises are declared to be an extension of the ‘State’ under Article 12 of the constitution. Government enterprises can function as Government departments and in accordance with the modalities similar to Government administration which impedes decision making in CPSUs. This situation undermines the entrepreneurial and commercial functioning of Public Enterprises, putting them at a disadvantage vis-à-vis their private sector counterparts.¹²

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