CHAPTER - II
REVIEW OF RELATED LITERATURE

The present chapter briefly reviews the studies and articles of different aspects of Disinvestment and privatisation of Central Public Sector Undertakings connected directly and indirectly with the present study. In this context, it is worth to mention some of the findings of the studies or articles in the following passages.

2.1 FOREIGN STUDIES

Rehman Sobhan\(^1\) in his research paper submitted to Centre for Policy Dialogue on the topic *Privatisation in Bangladesh: An Agenda in Search of a Policy* focuses on an overview of the actual privatisation experience in Bangladesh over the 20 years expanding compass of privatisation, its underlying problems and reviews and the limited evidence in analysing its outcome. The concluding part discusses possible implications of the present approach to privatisation in Bangladesh on the development process in Bangladesh. The paper finds that a decade and a half of exposure to a vigorous and donor assisted programme of privatisation has yielded few benefits to the Bangladesh economy. With a few exceptions, privatised units have not significantly improved performance but have contributed to enterprise closures and unemployment. Private sector default in the banks has increased exponentially. It states that the Privatisation Board is to get rid of SOEs from the public domain as fast as possible indicating indifference as to whether such units, once privatised, are closed down and their land sold off for use in commercial or real estate ventures. The paper expresses that an approach to privatisation implies a certain innocence of vision in charting Bangladesh's future development landscape and the industrial strategy to be located within the design. It suggests that the approach to privatisation appears to have introduced an entirely new logic to the divestiture process. The indication of research at the Centre for Policy Dialogue, states that the exponential increase in SOE losses has coincided with the move towards a more aggressive privatisation policy in the mid-1980s. Enterprise level information on SOEs indicates a rapid deterioration in performance once they have been listed for privatisation. A further

\(^1\) A research paper on, “Privatisation in Bangladesh: An Agenda in Search of a Policy”, was submitted to ‘Centre for policy dialogue’ Occasional Paper Series 16, August, 2002.
hazard to Bangladesh's development prospects arises from the implications of a policy which envisions no future role for public enterprise in the manufacturing sector.

Peter Gibbon\(^2\) in his paper on the topic “Privatisation and foreign direct investment in mainland Tanzania” presents the fullest available information on 83 of the 100 ‘real’ privatisations occurred in Tanzania from January 1992 to June 1998. This information is supplemented by a sketch of the non-privatisation based foreign direct investment (FDI) position over the same period. The study shows privatisation revenue roughly accounted for a third to a half of all FDI. Projects in the agro-based sectors comprise the bulk of both privatisation and non-privatisation based investments in number, but the great mass of FDI was accounted for by projects involving mining and power. The study envisages that issues of investment both through privatisation and outside it. Privatisation has proved the dominant investment mode in most of the traditional exported raw materials. The report finds that the inability to secure a higher degree of national ownership were one of the two main sources of political controversy arising in relation to privatisation. The paper concludes that controversies around the questions have never crystallised into a clear anti-privatisation lobby or campaign.

Shahzad Uddin and Trevor Hopper\(^3\) in their research paper on the topic “Accounting for privatisation in Bangladesh: testing World Bank claims” questions the beliefs of World Bank and IMF on privatisation policies of less developed countries. This paper evaluates the World Bank claims that privatisation would improve management controls and lead to an improved commercial performance. The paper compares the post-privatisation performance of companies in Bangladesh examined in World Bank report with the authors’ own research on the same companies. The World Bank report reported the privatisations were successful establishing the basis for further privatisation. In this research report, only one of the privatised companies was judged as commercial success. The evidence of the report suggests that privatisation has not increased returns to society: privatised companies’ contributions to state revenue declined in real terms and as a proportion of value added. This paper argues that the IMF, the World Bank and Western capitalist States have not provided the technical infrastructure and

\(^3\) A Ph.D thesis on “Accounting for privatisation in Bangladesh: testing World Bank claims”, submitted to Queen’s University Belfast, Belfast, BT7 1NN, UK Manchester School of Accounting and Finance, University of Manchester Manchester UK.
organisational capacity to execute their neo-liberal privatisation agenda, which rests on dubious economic assumptions about socio-economic factors. The research report states that the World Bank claims upon the efficiency and benefits for all, the suspicion that privatisation in Bangladesh may have redistributed power and wealth to some of the new owners. The author further states that unfavourable evaluation of privatisation in Bangladesh is not unique. It has been happening again and again around the World.

T. G. Arun and F. I. Nixon\(^4\) in their paper titled “The reform of the power sector in India: 1991-1997” discusses reforms in the power sector in the context of the poor performance of State Electricity Boards (SEBs), and evaluates the recent policy changes in the sector. The new power policy permits a variety of ownership structures and has reduced the number of statutory clearances required. The paper concludes that the success of reforms depends very largely on State Governments perception on their role in the reform process and their understanding of the key issues involved.

Devesh Kapur and Ravi Ramamurti\(^5\) in their paper on the “Privatization in India the imperatives and consequences of gradualism” argues that it was not “vested interests” alone, but institutional structures, in particular those embedded in the judiciary, parliament and India’s financial institutions, that account for the lag between the onset of economic liberalization and privatization and its episodic nature. The paper examines the changes in the perceived costs of the status quo of State-Owned Enterprises but also plays a role in the timing of reforms. The authors’ state that the external debt crisis forced the initial round of economic reforms, the growing internal debt problem and the fiscal crisis of the Indian state increasing the opportunity cost of State-Owned Enterprises (SOEs).

Wen Xu and Shahzad Uddin\(^6\) in their article on the topic “Public sector reforms, privatisation and regimes of control in a Chinese enterprise” examines the Chinese economic reform underlying rationale for the Chinese Government's privatisation and public sector reforms. They argue that reformed state enterprises and privately managed firms demonstrate superior management control and better performance, and encourage economic growth and employment. The paper states there are very few

\(^5\) A research article on “Privatization in India the imperatives and consequences of gradualism”, (India after a Decade of Economic Reforms: Retrospect and Prospects) published by Stanford University Press, 2005.  
\(^6\) A research article on “Public sector reforms, privatisation and regimes of control in a Chinese enterprise” submitted to Bank Services Department and School of Accounting, Finance and Management, University of Essex, Accounting Forum Volume 32, Issue 2, June 2008, Pages 162-177
intensive case studies published in English journals about privatisation in China which have reversed previous losses and introduced better management controls, leading to increased investment, productivity, and overall organizational effectiveness and efficiency. The researchers do not deny the control problems of Chinese SOEs, but questions the consequence of the new controls installed during the post-privatisation period. The paper also reveals that a declining tendency in employment; altered distributions of wealth to the State and labour, and lack of improvements in the accountability of privatised companies. The paper concludingly argues the aims of reform policies in China, including better control, increased profitability and an improved working life for Chinese people, have not materialized.

Douglas Wood and Devendra Kodwani\textsuperscript{7} in their article on the topic “Privatisation Policy and Power Sector Reforms: Lessons from British Experience for India” examines privatisation of public power sector enterprises in Britain and the reforms to be taken by India. The article states Privatisation of public sector enterprises becomes an important policy issue in the context of the current liberalisation and deregulation of the industrial sectors in India. They state that the key issues revolve around the degree of restructuring the State Enterprises or industries to be privatised, the speed and timing of such restructuring and the methods used for transfer of ownership from public sector to private sector. This paper examines the lessons of the British privatisation programme for India since reform of the energy sector is a key economic objective in India. The discussion focuses on privatisation of electricity supply industry a key sector in economic development in India. Privatisation of British Electricity Supply Industry was preceded by radical changes in the industry structure and restructuring of the firms in the industry was accompanied by a tight regulatory framework intended to promote efficiency and competition.

A.J. Goulding\textsuperscript{8} in his article titled “Retreating from the commanding heights: privatization in an Indian context” examines the privatisation in India of State-Owned Enterprises. He studies for the period between 1988 and 1993, and states that about 2,700 State-Owned Enterprises (SOEs) were privatized in 95 countries, excluding large-scale voucher privatizations. By 1995, the total value of privatization deals exceeded $300


\textsuperscript{8} A research article on“Retreating from the commanding heights: privatization in an Indian context”, published in Journal of International Affairs, questia online journal Vol. 50, 1997.
billion. The Writer argues that India has pursued a unique approach calling it as “parallelization.” He further states this includes encouraging the development of private sector competition for State-owned firms (SOEs) while at the same time slowly establishing independent regulatory agencies to oversee the newly established players. He suggests that whatever realignment had taken place the political parties fail to implement the process of privatisation.

Martín Rama⁹ in his article titled “Public Sector Downsizing: An Introduction” highlights the importance of Public sector downsizing which become a major reform endeavour in developing countries. He stresses that the reform efforts substantially improve economic efficiency, but the risks are considerable. The Public Sector Retrenchment project represents an attempt to sketch a protocol for public sector downsizing. The article states that some of the findings and policy recommendations need to be adjusted, and some are possibly wrong. The article expresses that more research and experimentation are certainly needed to move in the direction of a more comprehensive and reliable protocol. The author suggests that a strong interaction of policy and research in the immediate future could contribute to the success of public sector downsizing endeavours over the longer run. But the article states that even a carefully designed protocol could prove ineffective if the mechanisms that led to overstaffing remain unchallenged. The article recommends institutional setting would evolve in the direction of increased professionalism and efficiency. The article concluding states that downsizing operations should therefore be part of a broader effort to reform and modernize the public sector, not just isolated endeavours.

Nandini Gupta¹⁰ in her paper on the topic “Privatization in South Asia” discusses the privatization process in South Asia with a focus on India, highlighting inefficiency due to rent seeking by politicians and workers, protection from competitive forces, and the absence of market-based incentives for workers. The author states that as a result there is a significant drain on Government resources throughout the region. The articles focuses that despite the inefficiency of State-Owned Enterprises, public support for privatization remains low. Reluctance to privatize is due to the historical context to State ownership and immediately in postcolonial era, economies used public money in

---

¹⁰ A research article on “Privatization in South Asia”, submitted to Kelley School of Business, Indiana University, November 2006.
order to quickly develop an industrial base. The paper describes the progress made in privatization and the two main approaches used to privatize firms in India: partial privatization and strategic sales. It states that partial privatization is politically less costly because it does not involve the transfer of management control; there is a risk of continued political interference in these firms. Strategic sales on the other hand may generate more efficiency improvements, but are politically costly to implement. The article also focuses on evidence suggesting that political competition and patronage plays a significant role in the privatization process in India and it appears that the Government is reluctant to privatize firms located in regions where the governing party faces significant competition from opposition parties. The evidence that, the Government is less likely to remove barriers to foreign investment in industries with profitable and capital intensive State-Owned Enterprises was also highlighted.

The paper describes the privatization process in other South Asian economies stating some of economies like Pakistan and Bangladesh have made more progress than India. The paper also establishes the fact that privatization has not led to massive layoffs in India.

The paper summarizes, privatization of infrastructure sectors remains the key challenge confronting the economies of South Asia. Infrastructure privatization is likely to differ from that of manufacturing because of the need for regulatory oversight. The evidence also suggests to increase private participation, the Government need to pursue both privatization and competition policy reforms in these sectors.

Siddhartha G. Dastidar, Raymond Fisman, and Tarun Khanna\footnote{A paper on “Testing limits to policy reversal: Evidence from Indian privatizations”, presented at Graduate School of Business, Columbia University, New York, NY 10027, USA. 5\textsuperscript{th} September 2007.} in their article on the topic on “Testing limits to policy reversal: Evidence from Indian privatizations” examines the effect of regime change on privatization. They found that stock prices of Government-controlled companies slated for privatization dropped 3.5% relative to private firms. They also found that Government-controlled companies that were under study for possible privatization fell 7.5% relative to private firms. They state that this is consistent with investor belief of a “point of no return,” where advanced reforms are more difficult to reverse. The article suggests that layoffs, combined with the privatization announcement, served as a credible commitment to privatize.
Gopal Joshi\textsuperscript{12} in his paper on \textit{Privatization in India: Social Effects and Restructuring} has attempted to emphasize that the rationale for privatization and preparations for the privatization are very important to minimize the social costs and dislocations caused from such initiative. He finds that South Asian countries have come to realize that privatization for the purpose of reducing fiscal deficit has caused them to off load those enterprises first, which were loss making, which has not inspired the private sector confidence and has resulted in large-scale worker retrenchment. The paper further argues that, the response to worker redundancy has not been very effective either. He states the absence of a strategy whereby the enterprises are restructured and privatized has also caused a great deal of loss in public investments when privatized. He found that the restructuring experience has not been a very satisfactory one in South Asia due to the long-standing habit of interference of the Government. Therefore, he suggests, it is essential to first carry out the regulatory reform that would clarify the roles of Government, workers and employers in the process of privatization. A transparent and accountable reform process would not only instill confidence among the private sector and the general public, it would also assure the workers about the fairness of the system.

B S Ghuman and Roger Wettenhall\textsuperscript{13} states in their article on \textit{“From Enterprise and Privatisation Towards Sectoral Mixes”} presented in the symposium of \textit{“Public Administration”} states major themes featured over the years in the scholarship of public enterprise, privatisation and public-private mixes. From corporatisation conceived to privatisation was a short step, and the IASIA Working Group embraced this development easily in its study agenda.

The argument of the symposia on Indian public enterprises owned by Central Government of India stated a first reform phase ran for about 10 years after a decision was taken in July 1991 to restructure the enterprises as part of a programme of overall economic reform. The reforms entered a new phase known as "second-generation reforms", and this revised reform programme has two components each associated with


\textsuperscript{13} An paper on \textit{“From Enterprise and Privatisation Towards Sectoral Mixes”} – \textit{“Public Administration"}, presented in Annual IASIA Conference in Athens in July 2001.

The paper presented in this symposium have been developed from papers first presented at meetings of the Working Group at either the Beijing conference (July 2000) or the Athens conference. The case study of the Indian state of Himachal Pradesh: Paris 1998, Birmingham 1999, Beijing 2000 and Athens 2001
one of the policy strands and the initiatives aiming at empowerment of public enterprises leading to privatisation.

The another theme of the symposium on **Empowering Public Enterprises** underlined philosophy of empowering public enterprises to improve if they are granted more autonomy and are liberated from the stranglehold of bureaucracy. The SCOPE proponents of the autonomy package argued that from the experience of superior performance of public enterprises during the 1991 reform period, public enterprises in India improved in comparison to the pre-reform period, and also succeeded in outperforming the private sector. The proponents also reiterated that the Government of India initiated three key reforms to empower public enterprises by granting operational autonomy to very large public enterprises, professionalise the institution of the board of management and "deregulation" of enterprises by drastically reducing the number of Government guidelines to be complied with by them. The argument stressed that the aim is to enable large enterprises to establish their supremacy in global as well as national markets. They further stated granting of operational autonomy to eleven very large public enterprises under the *Navratna* programme inaugurated in 1997 is seen as the first key move in enabling them to become global giants without deferring to Government, to incur capital expenditure; enter into technology joint ventures or strategic alliances; effect organisational restructuring including establishment of profit centres, opening of offices in India and abroad, and creation of new activity centres; design and implement schemes relating to personnel and human resources management, including voluntary or compulsory retirement schemes; raise debt from the domestic capital markets and borrowings from the international market subject to normal clearance requirements for all enterprises whether public or private; and, up to defined limits, establish financial joint ventures and wholly-owned subsidiaries in India or abroad. Investment decisions are made quickly, and a number of joint ventures established with, Indian, American, French and German private companies, for the development of new domestic projects and some overseas projects in Mauritius, Vietnam and Zambia.

Privatisation remains highly controversial in India, and raises wide-ranging issues relating variously to the arbitrary selection of candidates for divestment, valuation methods and the general question of transparency in sale dealings, employment consequences, centre-state relations, capital needs and the ethics of the private sector. The
argument was that the changes are made in the name of privatisation; their main effect is to bring into existence new forms of public-private mix.

The outcome of the symposium stated that in Spain, Fiji and some of the South African enterprises, there are mixes of public and private shareholdings. It further stated as in the pre-privatisation US Enrichment Corporation and the reformed Saudi Ports Authority, public owners work with private operators through management contracts. The suggestion was to reduce the number of ongoing "controls" from central ministries, enhancement of enterprise ability to operate in competitive environments, disaggregation into smaller operating units dedicated to particular functions or services, and extend operations into global markets. It stated all this embraced by the modern notion of corporatisation. The rhetoric of privatisation has also been significant in Spain, showing a movement towards public-private mixed ownership firms. In the Spanish case study, it stated liberalism requires defending competition not competitors, reform "solutions" adopted there and in many other countries often do not deliver that result.

Sunita Kikeri and Aishetu Fatima Kolo\(^\text{14}\) (World Bank) in their paper on "Privatization: Trends and Recent Developments" takes stock of recent privatization trends, examines the extent to which Government ownership is prevalent in developing countries, and summarizes emerging issues for state enterprise reform going forward. Between 1990 and 2003, 120 developing countries carried out nearly 8,000 privatization transactions and raised $410 billion in privatization revenues. Privatization activity peaked in 1997 and dropped off in the late 1990s and, while still at overall low levels, is slowly creeping back. The paper shows that the costs of not reforming State enterprises are high and that continued efforts need to be made to improve their performance by improving privatization policies and institutions; adopting more of a case-by-case approach for complex sectors and countries; and exposing State enterprises to market discipline through new private entry and exit of unviable firms and improvements in their corporate governance.

Simrit Kaur\(^\text{15}\) in his research paper titled “Privatization and public enterprise reform: a suggestive action plan” focuses on the various modalities of reform options,


such as Divestiture, Greenfield, and Cold Privatization adopted by India to improve the performance of its SOEs. Specifically, the paper gives a comprehensive assessment of the disinvestment policies implemented since 1990. The paper provides a suggestive action plan to spur reforms and improve outcomes and concludes by summarizing the main findings from an overall policy perspective in the context of the Indian SOE reform programme. The article states that in India, the new economic policies of liberalization are in the nature of Greenfield Privatization prompting private industrialists to venture into areas earlier reserved for the public sector. The author finds that in India changes in performance of SOEs have not materialized due to the nature of disinvestment modality adopted. The paper suggests that if the private sector is allowed in areas reserved for the public sector, competition will enhance, which in turn will increase efficiency of SOEs and privatization will reduce Government’s commitment and involvement in enterprise decision making thereby providing infrastructure and welfare goods to the public. The author concludes stating that the policy of privatization in the era of globalization, seems to be in the right direction.

Karl Fasbender\textsuperscript{16} (HWWA-Report) prepared a report as a working discussion paper for a technical cooperation project between Indian Ministry of Disinvestment and GTZ on the topic “\textbf{Selected Principles, Elements and Experiences of Privatisation in Germany}” which overviews selected principles, elements and experiences of privatisation in Germany, with special reference to the new Federal States in East Germany and under consideration of selected aspects in neighboring countries. The report states worldwide experiences have shown that privatisation, if facilitated by an appropriate legal and institutional framework, contributes significantly to an increased efficiency and dynamism of the privatised companies. According to the analysis, privately owned companies on average realise a better return on equity than SOE and a higher return on assets In addition private companies have a higher labour productivity. According to three studies, the profitability improved in 63\% to 71\% and the efficiency raised from 79\% to 86\% of all enterprises. The investment quota increased in 55\% to 67\% of privatised companies. The report states, experiences in Germany have shown, that privatisation is a very important element to increase efficiency of the SOE and dynamism of the economic system, to mobilise private resources for the development process, to

improve the allocation of public resources and to reduce public debts and/or budget constraints. The report pinpoint, privatisation of public monopolies, combined with demonopolisation, often has easily observable benefits for the consumers. The study report concludes that a lot of experiences are available in Germany, India and other states. Although lessons learnt in one State can hardly be a blue print for actions in another State, experience sharing between countries is helpful to avoid mistakes and disappointments, which could jeopardise the privatisation policy.

2.2 INDIAN STUDIES

Mrs. Manju Gupta, Dr. Praveen Saxena and Dr. S. P. Kaushik\textsuperscript{17} (2002) in their study on “Accounting standards Vs Accounting Practices in Indian Public Sector” examines the compliance of Indian Accounting Standards issued by the Institute of Chartered Accountants of India [ICAI] among the Public Sector Enterprises in India. In their research study, measurement and evaluation of provisional Accounting Standards followed by 36 manufacturing Public Sector units was analysed. The Accounting Standards prescribed by ICAI relating to AS-1 to AS-15 was analysed by the hypothesis testing for the periods from 1995-2000. It was found that the public sector units were not making significant progress and awareness in adopting accounting standards was not to the need of the changing global scenario. It was suggested that adoption of proper Accounting Standards will increase the confidence of investors in the PSUs. It was furthered suggested that favorable psych-economic environment can be created by adopting more transparency in functioning of the PSUs. They recommended that adoption of Accounting Standards by PSUs will develop psych-economic environment and regulatory agencies should make provisions for their Companies to use Accounting Standards compulsorily.

Prof. V. Gangadhar and Dr. M. Yadagiri\textsuperscript{18} (2002) in their research article “Disinvestment in Public sector enterprises” focused on to analyse the objectives, existing procedures, administrative machinery for disinvestment and the performance of the disinvestment against the targets set for the years 1991-2001. It also revealed the significance of disinvestment proceeds vis-à-vis the budget deficit & capital receipts. The


disinvestment process, modalities, Disinvestment machinery and disinvestment practice in Central Government Public Sector Undertakings was examined. The proceeds from disinvestment vis-à-vis deficit financing and capital receipts for 1991-2001 were examined. The study found that the fiscal deficit, disinvestment and capital receipts along with the relative rates indicate disinvestment proceeds are meager. The proceeds of disinvestment fluctuated widely showing greater inconsistency in proceeds realized as against an increased rate of growth in fiscal deficit and capital receipts. It further revealed that average growth of fiscal deficit as percentage of GDP was meager. The article prompted that the aim of the Government to mitigate deficit financing through disinvestment process does not materialize. The study observed, the disinvestment proceeds were totally negligible and insignificant in relation to both capital receipts and fiscal deficit. It also revealed average proceeds of disinvestment as a percentage of deficits for the study period 1991-2001 was 3.61%, which were 3.4% of the total capital receipts. The study suggested that the future disinvestment should be 10% and 20% of the equity of 23 selectively listed PSUs to realize the target of disinvestment.

Mr. B.S. Ghuman and Mr. Bhawna Gupta\(^{19}\) (2002) in their research study on “Administrative Restructuring in Public Enterprises” describes the recommendations of Committees and Commissions constituted for restructuring of public enterprises in pre-liberalisation and post-liberalisation phases. It stated that, public enterprises prior to liberalisation were regulated with guidelines and innumerable control measures by parliament, administrative Ministry, finance Ministry, CAG, CVC, CBI and Planning Commission. Restructuring of public enterprises in post liberalisation period was disinvestment, privatisation, Memorandum of Understanding, Professionalisation of Board, grant of Ratna status and relaxation of guidelines, the report stated. It concluded that the outcome of these initiatives is at variance with their objectives mainly because of the vested interest of administrative ministries, managements, employees, trade unions and other interest groups.

Dr.P.Rajendran and Mr. M. Selvaraj\(^{20}\) (2005) in their research study on “Value added analysis of ONGC” emphasis the value addition of ONGC during the period 1994-95 to 2003-04. The performance evaluation of ONGC through value addition was


analysed. They examined the four contributing members namely employees, Government, providers of capital and shareholders of value addition in ONGC. Their study indicated that the total value added as well as applications showed a positive trend. The study exhibited, ONGC has succeeded in achieving the objectives by enhancing its contributor’s wealth. The study further stated ONGC was a socially responsible public sector enterprise contributing its profit as subsidies to public sector marketing companies to meet the rise in oil pricing, based on administrative instructions of the Government of India. The conclusion of the research stated ONGC cannot be expected to obey the orders of the Government if it is disinvested further.

Dr. Naval Bajpai21, in his research study on “Change in the degree of mutual trust: A comparative study in pre and post privatisation period of a public sector” examines the change in degree of mutual trust of a privatized public sector organisation measuring it with 120 identical subjects for the pre and post privatisation periods. It was found that distrust of managers by subordinates is associated with the use of strong method of influence loss interaction, fewer attempts to influence and use of personal related characteristics to explain the lack of trust. The study stated that when employees perceived threat from every side, it was management which took one step to curtail down the negative feeling in the environment. The findings highlighted that there is a significant difference in terms of mutual trust among seniors and juniors in pre and post privatisation, namely to create psychological or emotional bond between employees and organisation to motivate employees against job insecurity to enhance efficacy and financial health to the benefit of employees in long-run’ to highlight the positive effect of privatisation and to treat it as social agitation to reform economic health of the country.

Anurag22 in his research paper on “Disinvestment of Public Sector Undertakings” focuses on the objectives of disinvestment, process of disinvestment, timing of disinvestment, progress and recent trends in disinvestment, comparative study of fiscal deficit and disinvestment and lastly concluding remarks and suggestions. He examines the Indian approach towards disinvestment seems to have gone totally wrong ever since the reforms process was initiated in the early 90's. He undermines the country has lost the opportunity and its way as the pace of the entire process is very slow and lethargic in nature. The paper finds that the whole process of disinvestment is not

21 A PhD thesis on “Change in the Degree of mutual trust: A Comparative study on pre and post privatization period of a public sector”, published in Abhiyan, p.22-p.31
encouraging as the total proceeds realized is just 35% as against the target set for the
decade of 1991-92 to 2001-02. The research further found that out of 48 companies
disinvested only a few have been genuinely privatized. The privatisation of Indian PSUs
are compared with the PSEs in other countries like Taiwan, Hungary, Thailand,
Philippines, Korea, Turkey, Poland, Eastern Europe, West Asia and China where the
disinvestment program have a professional approach. He suggests that there are three P's
of disinvestment namely, promise, policy and performance which is not much appreciable
in India.

M Gopalakrishna23 in his case study on “Privatization – A Case of Allwyn
Nissan Limited,” suggests that the restructuring of Public Enterprises (PEs) is to enhance
their productivity and also make them accountable for their activities. The restructuring of
PEs takes different forms like dilution of equity, changed composition of the governing
board, leasing and mandating. The Government made attempts to rehabilitate the
enterprise by transferring its ownership. The case study argues that a mere change of
ownership does not guarantee efficient performance on the part of enterprises. The
problem of the enterprise was that it had to witness certain unforeseen exigencies that
were beyond its control. It provides an insight into the rehabilitation process adopted by
the Government of Andhra Pradesh with respect to ‘Allwyn Nissan Limited’, particularly
from the perspective of protecting the workers’ interests.

K N Naik24 in his case study on “IPCL Takeover by RIL – Cultural Shock of
Takeover of Public Sector by Private Sector” discusses the takeover of IPCL by
Reliance Industries. It says that takeover by a hardcore private sector player was a rude
cultural shock to employees who had been born and brought up in IPCL culture. The case
study describes the evolution of original IPCL culture and the changes that took place
after takeover of management rights by RIL. The case study attempts to bring out the
rapid pangs that all stakeholders had to bear.

Sanjib Dutta25 in a case study “Balco – The Disinvestment Story,” highlights
the disinvestment case of Bharat Aluminum Company (Balco) by the Government of
India (GoI). Further, it discusses the incidents, which surfaced after the GoI’s decision to

24 A research paper on “IPCL Takeover by RIL – Cultural Shock of Takeover of Public Sector by Private
Sector”, published in Section III, Cases, icfai, books.
reduce its stake in Balco to 49 per cent and sell it to Sterlite Industries. The case also throws light on the political squabbling and the workers strike after the sale.

R V Shahi in a case study “Privatization of Electricity Distribution in Delhi: Many Unknown Facts about NDPL (Tata Power) Success Story,” discusses the disinvestment case of NDPL. NDPL was incorporated in July 2002 as a joint venture between Tata Power and Government of NCT of Delhi as a result of the privatization of electricity distribution in Delhi. This case discussion inevitably brought out in consumer angle, besides the issues of revival of the sector and a number of other technical and techno commercial aspects. NDPL introduced a scheme called SUGAM containing the database for 100% of their consumers. Several new and innovative methods have been introduced for making payments of electricity bill, including payment through website. NDPL in Delhi have not made improvement and vindicated the initiative of the Government of Delhi. The author argues that, if power sector does not improve, and provide to consumers what they always deserved, there is a need to bring, in a bigger way, competition, through more players.

Jain P. K, Yadav S. S, and Gupta Seema in their paper on “Impact of Disinvestment on Financial Performance: A Study of Indian Public Sector Enterprises from Petroleum Industry” compares the disinvested and non disinvested selected Central Public Sector Enterprises (CPSEs). The study has been done on the selected 15 Indian PSUs which represents the entire sector of petroleum industry. The study showed that the extent of difference in the financial performance of the select enterprises has taken place primarily in terms of profitability over a period of 12 years (1996–2007). Profit test was used as a conventional test to access the economic efficiency and rate of return (ROR) to determine profitability. Findings suggest that disinvestment has yielded significant improvement in their performance.

T.T. Ram Mohan in his research on the topic “privatization in India: issues and evidence” surveys the process of privatization in India and assesses its impact on the Indian economy. The survey of the literature on privatization, was in respect to less

---

28 A post doctoral research on “privatization in India: issues and evidence” submitted to Indian Institute of Management, Ahmedabad, India
developed countries. The study reviewed the role of the public sector in the Indian economy, and the process of economic liberalization and privatization in India. It dealt with impact of privatization on firm performance and assessment of mechanisms of corporate governance in India. The empirical research on the subject of privatization was on three categories: Case studies, Cross-sectional comparisons of public and private sector performance and econometric analysis of pre and post-divestiture performance of enterprises. The hypothesis testing on four factors was considered by the researcher on PSUs in India that they are less profitable compared to the private and PSUs are less efficient compared to the private. Privatization has improved profitability, efficiency, employment, capital spending, output and net taxes in the privatized firms. Improvement in performance after privatization depends on the degree of divestment. The author states that in taking a view on privatization in India, it is necessary, to relate the structure of ownership in the private sector.

Himanshu Joshi\(^\text{29}\) in his research study in the topic “Does Disinvestment Improve Financial Performance? A Case of Bharat Heavy Electricals Ltd. (BHEL)” attempts to analyze the impact of change in the ownership on financial performance of public sector enterprises in general and Bharat Heavy Electricals Limited in particular. In this study, disinvestment of the Government shareholding has been taken as an event and pre - disinvestment mean value of various financial parameters for financial years (1986-91) is compared with post-disinvestment mean value of financial years (1992-2000). The study shows that disinvestment improves the profitability and liquidity position of BHEL while it has affected the dividend payout negatively. The paper further examines background of BHEL. In this approach, performance of the enterprise before disinvestment is compared with its performance after disinvestment, attributing any observed change to the disinvestment. The study assumed that due to maintaining accordance with Government’s economic, social, fiscal and political expectations the public sector enterprises are not able to accomplish their internal financial goals, thus expected that disinvestment leads to increase profitability and operating efficiency in public enterprises. The research study tests the hypothesis relating to dilution of Government equity in ownership causes profitability and operating efficiency, decreases debt proportion in the capital, increases dividend payout on disinvestment and liquidity.

\(^{29}\) A PhD thesis on “Does Disinvestment Improve Financial Performance? A Case of Bharat Heavy Electricals Ltd. (BHEL)” submitted in 2008
improves in short and long term. The study suggests and concludes stating that BHEL operates in globally competitive environment; disinvestment is a good solution as it has resulted into improved profitability and operational efficiency.

B.N. Puri\textsuperscript{30} in his research study on the topic “Private sector participation in the transport sector in India” focuses on the experience in involving the private sector in transport development in India. The study provides a broad overview of Government policies and various initiatives that have been undertaken to promote private participation adopting various models. The study suggests that efforts are be made to make private participation models such as BOT more investor-friendly in the road sector by focusing on downside risks of low traffic volumes. The study concludes stating that, it hopes the involvement of the private sector will increase in the future as the sector will gain more confidence in undertaking transport projects through partnership arrangements with the public sector and the overall environment becomes more conducive to private participation through conscious efforts of Government.

Rajat Sharma\textsuperscript{31} in his research study “Privatisation of oil sector” examines the issues confronting HPCL and BPCL disinvestment. He highlights the decision of the Supreme Court in BALCO. He, reiterates the petition filed against disinvestment and privatisation of oil PSUs namely, HPCL and BPCL which needed parliamentary approval. The study acclaims that oil is one of the biggest consumer markets, going by the past experiences; it is safe to privatize this sector to make the consumer happy. The view is that the oil industry is far too important for the economic development of the nation and it is not correct to leave its control in the hands of private companies. He reiterates the judgment of the apex Court on the disinvestment policy of the Government in the context of the two oil PSU's. He concludes by quoting the words by, Marilyn Ferguson: It's not so much that we're afraid of change or so in love with the old ways, but it's that place in between that we fear . . . . It's like being between trapezes. It's Linus when his blanket is in the dryer. There's nothing to hold on to.

Janardhan G Naik\textsuperscript{32} in his article “Disinvestment through Strategic Sale of Public Sector Enterprises,” discusses the purpose for which public sector enterprises

\textsuperscript{31} An article on “Privatisation of oil sector”, published in icfai, books.
\textsuperscript{32} An article on “Disinvestment through Strategic Sale of Public Sector Enterprises”, Perspectives, Section I, icfai, books.
came into existence. It offers insights into the factors that forced the Government to divest its stake from these enterprises and privatize them. The article focuses on the machinery, mechanism and methods used by the Government in the process of divestment and focuses on how strategic sale was used in this process. The article suggests that here is no logic in privatizing the weak and sick units first and not touching the profit-making PSEs. It says that instead disinvestment should be based on whether PSE is in a strategic sector or in a non-strategic sector.

Jayashree Dubey and Dharmesh Shah\textsuperscript{33} in their article “Privatization: Do We Need to Change the Strategy?,” emphasizes that there is a need to properly analyse the profit history of a PSU compared to that of the private companies in the same industry and to see how best the problem of loss or decrease in profit of PSUs over the years can be combated before rushing into disinvestment. It suggests that the policy also needs revision on the basis of lessons learnt from previous experiences of disinvestment. The article discusses the reasons for failure of the PSUs, which forced them to go for privatization process. The article cautions that privatization, though associated with economic development, has major pitfall and does not always lead to success. Nonetheless, it suggests that privatization, which is well-accepted as a concept cannot be discarded, but a flawless strategy needs to be derived out of the learning from the past to make it equally accepted in practice.

Sumit K Majumdar\textsuperscript{34} in his article “Why Privatisation is failing in India,” discusses the reasons for failure in privatization strategies in India. Further institutional considerations have limited the success of the disinvestment efforts in India. On relevance to the Indian situation, there are four factors interactively making privatization yield the necessary results. Of these four factors, India scores highly on ‘competition’ and ‘transparency’. But it scores poorly on ‘commitment’ and ‘mitigation’. While the activities of the Government are transparent and it is committed to economic growth and a free market economy, clearly its mechanism design and implementation abilities make it a weak state. The article says that the lack of mitigating factors that compensate those affected by the re-structuring has been the bone of contention between the advocates and opponents of privatization in India.

\textsuperscript{33} An article on “Privatization: Do We Need to Change the Strategy?” Perspectives, Section I. icfai, books.
\textsuperscript{34} An article on “Why Privatisation is Failing in India”, Perspectives, Section I. icfai, books.
Dr. D.S. Chundawat, Dr. Shurveer S. Bhanawat and Ranu Mehta\textsuperscript{35} (2005) in their article “Disinvestment and Corporate Performance” examined the impact of disinvestment on the financial performance of selected Public Sector Undertakings. The exploratory research study was made on through disinvested central PSUs by applying univariate and multivariate analysis. Financial performance relating to operating performance of the PSUs was examined which showed a deterioration and decline in post – disinvestment period. It was stated that the preliminary results of the disinvestment experience show movement from the public to private led to some improvement in the corporate performance of the divested units. The article pinpointed, the asset utilization and short-term liquidity management show an increase in the efficiency, but there has been a decline in the overall profitability of the firms. It further stated the units show movement in the upper direction as far as solvency position is concerned but the change in variables is not significant. The concluding remarks of the article were ‘the empirical evidence to dare seems to give some positive direction to the process of disinvestment’.

Mrs. Monica Sethi\textsuperscript{36} (2005) in her article “Disinvestment: A Panacea for the Deb-ridden Economy” highlights the merits of disinvestment and privatisation of profit making, loss making and sick public sector units. She enunciates that huge profits made by PSUs are result of their monopoly. It is further stated that huge profits of the PSUs are not spend for welfare of the citizens but channeled back into the company itself. She embraces certain important enterprises in public sector where social consideration is paramount can be retained by the Government and encouraged to work in a competitive environment. She emphasised disinvestment process in profit making PSUs should be through strategic sale with an objective of transferring management to private hands in order to increase operational efficiency. The paper proposed the sale of chronically sick PSUs is not very much practicable and the resources garnered through the sale of sick PSUs can be made available to the same units as loan for economic restructuring and rehabilitation. Another alternative favouring disinvestment of sick PSU was to sell – off and depositing the proceeds into a bank to get better gain instead of suffering continuous losses. The article concluded stating that the public should no longer be taxed for the inefficiencies of PSUs and there is a need of developing consensus as various interest of


Government, public and employees are at stake. She remarked selling of these “white elephants” 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 suffering from load of nationalisation. She further reiterated that disinvestment can be regarded as a sound economic policy, a good social strategy and a prudent political philosophy, but transparency is vital for a successful disinvestment programme to bring credibility in any deal.

Dr.D.M. Manjundappa\textsuperscript{37} in his article on “Economic reforms and employment policy: Restructuring of Public Sector enterprises” asserted the reforms in PSUs through disinvestment and National Employment Policy. He elaborates on composition of public sector plan outlays to loss making PSUs. He emphasizes the need that restructuring PSUs are the means for mobilizing resources. The criteria of disinvestment were highlighted stating test of public purpose, delinking from budgetary requirement and constitution of Disinvestment fund. The impact of unemployment resulting from disinvestment and the experience countries like China, UK & EU are adopting with a National employment policy was reiterated. He suggests that in the context of thinning the labour force under restructuring of PSUs, reforms of labour system and employment generation should be deepened. Diverse firms of employment should be developed and economic means employed to readjust the employment structure. Employers and laborers’ should be encouraged to choose each other so as to speed-up the formation of employment mechanism allowing for rational flow of labour force. He further states that mobilizing targeted amount through disinvestment throws to the winds the main objective of PSU reforms and generation of adequate employment to prevent the growing restlessness among the jobless. He expresses that in the absence of a National Employment Policy and appropriate guidelines for economic reforms with “an employment face” it can underscore the fact that Government would provoke further resentment of labour. He suggests and concludes, if the Government is serious of reforms in PSUs, disinvestment should be meaningfully attempted by broad basing the equity holding among workers, small investors and others in the private sector with a National Employment Policy in the backdrop and creation of Disinvestment fund for reforming PSUs through restructuring.

\textsuperscript{37} A research article on “Economic reforms and employment policy: Restructuring of public sector enterprises”, published in Southern Economist, May 1, 2005, p.37-p.42
P Arjun Rao and B Srinivas Narayana Rao in their article “Human Factor in Privatizing the Public Sector Undertakings” emphasizes that there is a need to show some consideration towards the employees while privatizing public sector enterprises. Further, it suggests that it is the responsibility of the Government to retrain employees who are laid off, post-disinvestment, to ensure that they receive gainful employment immediately after retrenchment. The article points out that even if the Government takes steps to streamline the working of public sector undertakings, especially those that are making losses, it should not undermine the interests of the workers, but should have a human touch. Privatization is a proven cost-effective technique for delivering public services. The article suggests by developing a comprehensive employee adjustment and incentive program prior to pursuing privatization, the negative impact on current employees can be substantially reduced, thus lessening their resistance to privatization.

Padmalatha Suresh in her article “Airport Privatization and Financing: Experiences from Countries and Lessons for India,” discusses the process of the Airport privatization and the role of the key ingredient, airport financing. The article suggests that, if privatized airports are to be profitable on a sustained basis, the airport infrastructure should include non-aeronautical facilities developed to mitigate the airline industry risk. It offers insights into lesson from the global experiences and suggests imparting the same to the privatization and the financing of Indian airports to ensure success. It states that international experience suggests airport privatization is beneficial to all stakeholders – the Government, the private investors, the financial system and the public at large. With airport privatization already gaining momentum in India, the Government machinery, financing and contractual structures have to ramp up to keep pace.

Saji Kumar in his article “Encouraging Private Participation in Ports: An Overview on Guidelines,” highlights that the ports, which were previously in the purview of the Government of India and respective State Governments, were given financial and non-financial support due to which they never bothered to perform and make it profitable. However, with the effective implementation of the guidelines for the

38 A research article on “Human Factor in Privatizing the Public Sector Undertakings”, Perspectives, published in Section I, icfai books.
39 A research article on “Airport Privatization and Financing: Experiences from Countries and Lessons for India”, published in Section II: Sectoral Experiences, icfai, books.
40 A research article on “Encouraging Private Participation in Ports: An Overview on Guidelines”, published in Section II: Sectoral Experiences, icfai, books.
private sector, the major and minor ports have started reaping the benefits. Further, it
discusses areas where private sector participation are explored to the maximum extent
like leasing out existing assets of the port construction and operation of container
terminals, bulk, and the related fields. It also discusses the legal and the regulatory
framework for the private sector participation in port facilities as per the provisions of the
existing Major Port Trusts Act, 1963.

Milind Sathye\textsuperscript{41} in his article “Privatization, Performance, and Efficiency: A
Study of Indian Banks,” examines the effect of bank privatization on bank performance
and efficiency in India. Further, it reveals that the financial performance of partially
privatized banks (measured by return on assets) and their efficiency (measured by three
different ratios) was significantly higher than that of the fully public banks. Partially
privatized banks seem to be catching up fast with fully privatized banks, showing no
significant difference in financial performance and efficiency. On comparing the
strategies of privatization in India with the other countries, India found to adopt the
strategy of initial public offerings like Poland. This strategy failed in Poland but seems to
have succeeded in India. The article says that gradual privatization and well-developed
financial markets have contributed to Indian success.

T.L. Sankar, R.K. Mishra and A. Lateef Syed Mohammed\textsuperscript{42} in their article
entitled “Divestments in Public Enterprises: The Indian Experience” examines
important reforms relating to public enterprise (PE) policy in India and divestment of
their share-holdings. The article discusses the philosophy, process, organizational
mechanism, expectations and outcomes of divestment in Public Enterprises. The paper
points out the major weaknesses retarding the success of the newly introduced divestment
policy and outlines some reformatory measures to overcome them. The authors conclude
the article by presenting the historical background, current scenario, and problems and
performance of central Public Enterprises in India.

Ch Lakshmi Kumari\textsuperscript{43} in her research article titled “Privatization and
Disinvestment of State Public Sector Undertakings in Andhra Pradesh” provides

\textsuperscript{41} A research article on “Privatization, Performance, and Efficiency: A Study of Indian Banks”, published in
Section II: Sectoral Experiences, icfai, books.
\textsuperscript{42} A research article on “Divestments in Public Enterprises: The Indian Experience” published in
some insights into the process of disinvestment of public sector enterprises in the state of Andhra Pradesh. She states that the performance of State Public Sector Undertakings (SPSUs) in the state of Andhra Pradesh has been dismal, has not generated profits for their sustenance. The article states that Government appointed a Committee of Secretaries to review the working of the enterprises and based on the information collected by studying the enterprises, the Committee recommended that the process of privatization should be initiated in certain enterprises, taking into consideration the interests of the employees. The article expressed that Committee recommended immediate privatization of certain unviable enterprises and the other recommendations of the committee were winding up, disinvestment, partial disinvestment, restructuring, cost reduction, reorientation and referring them to Board for Industrial and Financial Reconstruction (BIFR).

The Chief Editor RPN - neyveliweb.com⁴⁴ in his article titled “Privatization of PSU's - Is NLC in the Pipeline?” states that even though NLC is properly regulated and well-managed, disinvestment can yield benefits in productivity. Replicating public monopoly by private monopoly will increase productive efficiency because of reduced political and administrative interference; changed property rights; and more efficient financial management. He suggests that labour ownership of the firm lead to more peaceful labour relations. It is possible to increase productivity if labour ownership is provided. He argues that good management is possible with workers as shareholders since workers can observe the "unverifiable" contribution of fellow workers. He further emphasis that the worker-ownership of disinvested firms can create political support for disinvestment and Trade unions must extend their support to the disinvestment program. The article suggests that the authorities must consider selling shares of public enterprises to workers at a discount.

He further states that in the Global era of liberalization NLC can even be opened to international market forces. He recommends that Disinvestment should be accompanied by the removal of distortions and unnecessary Government interventions. The paper states that disinvestment can stimulate NLC's productive efficiency and financial growth, if accompanied by reforms in its labour, bankruptcy laws and the deregulation of the economy.

Amit Kumar Srivastava and Vilas Vasantrao Kulkarni\textsuperscript{45} in their article titled *Disinvestment in India: A Stakeholders' Management Perspective* expresses that the reforms have affected many sectors and caused resistance from different stakeholders. The article examines the success rate of disinvestment in India is about 50 percent, therefore, the management of various stakeholders including, international agencies, corporate houses, political parties, trade unions/employees, local community and media become crucial for the success or failure of the disinvestment policies. This paper investigates NALCO disinvestment (2002-03 and 2005-06) through case study method, based on empirical data.

Madhu Suthanan\textsuperscript{46} in his article titled “Uncertainty spoils the party” states that more than Rs 2000 billion blocked as investments in 242 public sector units, apart from loans with returns on these investments at 6.7 per cent and with a borrowing cost of 12 per cent. The paper examines the profit earned by PSUs and finds that most of the PSUs need funds for modernization and expansion. The article emphasis that in UK labours productivity increased after disinvestment. It states that most profitable blue chip PSUs in India are performing well because of the Government's tactical support. The profits generated are not necessarily due to efficient management of the units. As and when market forces are allowed to reign, these units find it difficult to survive. The paper examines the disinvestment proceeds in Australia, where taxation levels were low, disinvestment proceeds were used to finance the deficit and in France, the objectives of disinvestment was to broad base share ownership. In countries like Turkey and New Zealand, disinvestment helped in developing the capital markets. It further states that in India a strong case for disinvestment is huge budget deficit, inefficient operations of PSUs, and bureaucratic controls over PSUs. The paper suggests that restructuring is the key to avoid delay of disinvestment decisions in India.

Krishna Chaitanya\textsuperscript{47} in his article on “Disinvestment of public sector undertakings” has revealed there is no clear-cut framework or policy for disinvestment in India. The article states the study of disinvestment for a period of 1991-92 to 2001-02 has revealed that a very meager amount of disinvestment proceeds has been realized as


\textsuperscript{46} An article on “Uncertainty spoils the party”, published in Financial Express, February 20, 2000.

against the target and the entire proceeds of disinvestment are been used to mitigate the gap of fiscal deficit instead of using them for development of social sector and building infrastructure. It stated that there is no transparency in the entire process of disinvestment in India and the Government has done a little or more so failed to attract foreign suitors for the disinvestment process in India. The article suggested that the Government has to form a policy framework for the entire disinvestment process, the Government should de-link the disinvestment process from the budgetary exercise and stop setting up of the targets in every year annual budget and with a long-term plan. The author further suggest that a separate fund should be created for disinvestment and it should be kept under the control of President utilized for building infrastructure and developing the social sector. Timing of disinvestment is crucial and the Government should follow a specific method or process in order to reap more chunks. The article reveals and suggests that the entire exercise of disinvestment should be audited by not less than two reputed auditing firms in order to have a fair and transparent picture of the entire process and the Government should have an 'Yearly Action Plan' which should spell out the activities carried out in that particular year and at the end of the year an 'Action Taken Report' has to be submitted.

Vinay K. Srivastava\(^48\) in his paper on Emerging issues of disinvestment in public enterprises (PEs) attempts to discuss important issues such as restructuring, valuation of equity, mechanism of disinvestment, application of disinvestment proceeds, parliamentary approval and political issues. The author states the decision of disinvestment of selected PEs of the NDA Government, for which even the road map was prepared, is being reviewed by UPA Government. The leftist group, which is supporting the Government, is opposed to disinvestment, as such, on the ideological ground. The paper confirms the momentum regarding disinvestment gathered during the NDA Government, has definitely slowed down and concludes that, the prospects of disinvestment appears to be slowed down in the near future.

Pavithra Suryanarayan\(^49\) in her article on the topic “An Assessment of the Post-Reform Competitive Performance of State-Owned Enterprises in India”

\(^49\) A research article on “An Assessment of the Post-Reform Competitive Performance of State-Owned Enterprises in India” published in Danish Institute for International Studies Publications from the former Centre for Development Research.
examines the efficiency, transparency and accountability in State Owned Enterprises (SOEs) of Central Government and reforms that can improve profitability, productivity and increase technical and allocative efficiency. The paper focuses on a comprehensive model to assess impact of ownership, deregulation, and firm-specific effects. Introduce a time variable by creating a panel data covering 13 years of reforms in the country and policy variables and the competitive intensity to assess its impact on the ownership coefficient. The paper finds that marketing, advertising, distribution, and salaries had the greatest effect on variations on the efficiency measure time, the performance of all companies deteriorated over time with respect to all three dependent variables- Efficiency, Return on Assets and Return on Sales. Firms performed their best on all three measures in the 1993-1996 and steadily worsened in the 1997-2000 and 2001-2005 time periods. The paper further explores that all firms performed poorly in terms of Efficiency and Return on Sales in regulated sectors compared with deregulated sectors, the inclusion of regulation as an independent variable reduced the negative effect of Government ownership on those two performance variables. The study suggests that the incorporation of policy variables into the model, the significance of MOU information, market competition and competitive intensity are essential.

Arun T. G. and Nixson F. I.\textsuperscript{50} in their paper titled “Disinvestment of Public Sector Enterprises: The Indian Experience” examines the disinvestment of shares of Public Sector Enterprises (PSEs) in India since 1991. The poor performance of PSEs reform is increasingly urgent in the context of the broader strategy of the liberalization of the economy to deal with the perceived weaknesses of India's development strategy. The paper argues that the main aim of disinvestment has been to reduce the public sector borrowing requirement, at the cost of the restructuring and rationalization of PSEs in particular and the public sector in general. The process of disinvestment has been a complex one and has not been free of criticism. Alleged under-pricing of shares, lack of transparency, limited public support for disinvestment and the absence of a common set of objectives between the Government of India and the Disinvestment Commission have been major problems.

R. Nagaraj\textsuperscript{51} in his research study prepared for the ADB Policy Networking Project, coordinated by Chiranjib Sen, Indian Institute of Management, Bangalore on the topic “Disinvestment and privatisation in India assessment and options” examines the poor financial return of public enterprises to meet the Central Government’s expenditure.

The study further reiterates the sale of fraction of the equity shares in selected public sector enterprises to public investment institutions 1991, signaled a major departure in public policy is the discourse on public sector reform from institutional design and corporate governance to a change in ownership in favour of private sector as a means to overcome the inefficiencies. The author states that quantitatively, the disinvestment and privatisation were modest as proportions of the targets, revenues realised, or as a proportion of the fiscal deficit. He further explains that disinvestment did not secure much revenue, as the stock market was subdued during 1990s on account of a series of scandals. He suggests a design of institutional mechanism that separates ownership and control of large firms, and reduces dysfunctional political bureaucratic interference as financing of investment is needed. Financial system provides resources for development and performs the function of a disciplining device on firms. The study further finds that disinvestment and privatisation do not seem to support to be the superior alternative. The study suggest that the numerous non-strategic public enterprises operating in competitive markets which are loss making can be disposed off by selling the real estate by creating empowered committees of all stakeholders in these enterprises and the remaining PSEs operating broadly in “competitive” environment can be granted greater autonomy, or give out to private parties on management contracts or on lease. The study concludes stating that Disinvestment Commission with representation from all stakeholders has to workout the modalities of undertaking the changes.

Selvam Jesiah\textsuperscript{52} in his paper titled “Privatisation across the Globe - a Review” sheds light on privatisation as a global phenomenon rather than a forced policy on particular segments of the world. The paper states that a simple and comprehensive review of literature about the privatisation across the world exhibits that privatisation have been implemented for different reasons. Privatisation in developed economies is political, whereas it is usually economic cum political in developing countries. The article

finds that Privatisation is a mediocre-success in the economies of transition, but a failure in most of the African economies. The author states, India adopted privatisation as a part and parcel of its economic reform and structural adjustment programme, but unable to carry out the programme in a required speed owing to multi-party Governments with significant role of communist parties. He concludes that the privatisation experimented across the globe offers not only a review, but also a lesson to many countries which are yet to go a long journey in privatisation.

Ila Patnaik and N. Gupta\textsuperscript{53} in their research paper titled ‘Partial privatization and firm performance’ argues that the main rationale for disinvestment is the increased efficiency of utilisation of resources of the economy, both labour and capital. The authors enunciates that partial privatisation, with the Government retaining control, has yielded improved productivity. The paper stresses that disinvestment of profit making enterprises by public offering of shares is desirable towards a greater mass of companies with dispersed shareholding to avoid concentration of economic power.

The article expresses, in the case of chronically loss making PSUs, the public at large is neither interested in buying shares, nor able to effect a transformation of management. The authors suggest that strategic sale is the best option, where full control of the PSU is auctioned off to the highest bidder. The paper enlist that out of 290 central Government PSUs, including banks and insurance companies 81 create Rs 1.8 trillion of gross value added per year, while the remaining 209 unlisted companies create Rs 0.9 trillion of value added per year stating unlisted PSUs are roughly half the size of the listed PSUs.

In the study of 40 firms over the period 1990 to 2000 in which only non-controlling shares were sold, even with partial privatization, the levels and the growth rates of profitability, labour productivity and investment spending improved significantly. The paper further argues that privatisation helps in facing serious difficulties with fiscal deficits and the consequential growing stock of public debt. Disinvestment proceeds could directly help to contain the situation if used to retire debt.

The article states that implementation of disinvestment and the ensuing political economy is an equally important issue in the road to disinvestment and two broad

approaches can be adopted for privatisation, strategic sales or open market sales. The authors suggest that in general the optimal strategy of disinvestment for profit making PSUs is open market sales and, for chronically loss making PSUs, it is strategic sales. It further suggests that the disinvestment programme could explicitly target conversion of many PSUs into widely held, professionally managed companies.

The paper concludes even partial privatisation achieves an increase in productivity. The fiscal impact of disinvestment will operate primarily through the increase in GDP growth and tax revenue that disinvestment yields, and not through disinvestment proceeds.

Ramakrishna, Mankad and et al\textsuperscript{54} in their paper at a Conference on Disinvestment: Strategies and Issues discusses the issues relating to disinvestment. The paper states that the reform of the public sector in general and that of the loss-making units in particular assume importance in the context of the financial strain under which all Governments, both at the Centre and the State. The issues of how to handle loss making enterprise were elaborated. The financial performance of the public sector enterprises in terms of technical efficiency, allocative efficiency and dynamic efficiency were stated. Technical efficiency basically relates to the ratio of inputs to outputs. Allocative efficiency relates to correction of market failure leading to better allocation of resources than what will be decided by price-mechanism. Dynamic efficiency relates to innovations and technological development. It was said that loss making units need not be excluded from disinvestment. The need for disinvestment was for retiring past debts and thereby bringing down the interest burden of the Government and to improve the efficiency of the working of the enterprise. The paper stated that the level of disinvestment in an enterprise in any year should be derived from the target level of Government ownership in that enterprise over the medium term. The target levels of ownership could be zero to 26 per cent to ensure limited control over special resolutions brought in the general body meetings of the enterprise; 51 per cent to have effective control and 100 per cent for full ownership. The target level of disinvestment should be derived from the desirable level of public ownership in an activity or unit consistent with Industrial Policy. The general degree of consensus is that in non-strategic and non-core sectors disinvestment can be beyond 51 per cent. For the rest of the sectors, the criterion of disinvestment can be the

extent of improvement and efficiency that can be brought about as well as the need to take care of the financial requirements of the Government. The paper suggested that the modalities of disinvestment, are offering shares of public sector enterprises at a fixed price through a general prospectus and Sale of equity through auction of shares amongst predetermined clientele is large as necessary or practicable. It also suggested that the process of disinvestment has also to take into account the conditions in the capital market. The paper concludes stating that modalities can be modified and general consensus on the basic parameters of disinvestment evolved.

K. Palepu, C.K. Prahalad, R. Rajan, H. Raghava, Marti Subrahmanyam, Abraham George and V. N. Vaghul55 the members of the committee presented a paper titled “Proposal on Privatization in India: Ideas on Implementation” suggest that GOI should shift priorities from owning, managing and subsidizing commercial ventures which mostly benefit the few to investments in human infrastructure that benefits all, especially the poor and the needy. They enlists broad principles of privatisation which focuses on improving the competitiveness of India's industrial infrastructure, the speed, social implications of unemployment, compensation, retraining, and reemployment, fixing accountability in one minister as nodal point, establishing regulatory authority, decentralizing implementation and selecting public sector units for privatisation based on degree of demand, capital intensity and operational efficiency. They recommend that separating people from assets in the privatization process is essential and protection of the interests of the employees. The further recommended that centralized supervision and decentralized implementation for transparency are essential.

Danish Faruqui & Raghav Sud56 in their project study on the topic “Economize, Privatize, and Prosper” explores the available options in terms of the ways in which Public Sector Enterprises (PSEs) could be hived off. The project was divided into three parts: The first part involved studying "the methods of valuation and sale of PSEs". The second evaluates methods of certain selected criteria. The study was made on six public companies up for sale and perused the Disinvestment Commission’s recommendations. They suggest discounted cash flow method is appropriate for valuation. The study suggests that after offering innovative VRS a certain percentage of equity should be set-

56 A project report on “Economize, Privatize, and Prosper” submitted as a project of Research Internship Program with the Center for Civil Society (CCS), New Delhi. 2001.
aside for ESOPS for reducing the opposition to a large extent. They study further states that in special cases where strategic partner is needed, the Government should invite competitive tenders and keep them as open as possible. A case-by-case approach needs to be adopted for going concern, the study reaffirms. The project further states that the political pressures rather than economic logic back the recommendations of disinvestment commission. They finally conclude the process should not be delayed.

Though previous research studies and articles have been published on various topics and dimension of disinvestment of privatisation of Central Public Sector Undertakings, none of the earlier studies have given importance to both disinvestment and privatisation of non-strategic CPSUs in India. Further, no studies have enunciated the policies, procedures and methods of disinvestment and the privatisation strategies. The present study enlightens the constraints and problems in implementing disinvestment programme and privatization measures. It attempts to suggest the changes to be made in the disinvestment procedure and practice. Besides, the study also elicits the opinion of general public, employees of CPSUs and experts on the disinvestment and privatisation of non strategic CPSUs who are the stake holders of Indian public enterprises. Hence present study is unique and significant focusing on the abovementioned salient features.