CHAPTER III

PROJECT MANAGEMENT PRACTICES IN PUBLIC SECTOR UNDERTAKINGS - AN OVERVIEW

3.1 Introduction

Project Management practices are highly inevitable for augmenting efficiency of PSU A brief outline about the project management practices in PSU is given in this chapter. Public Sector Undertakings (PSUs) have laid a strong foundation for the industrial development of the country. The public sector is less concerned with making profits. Hence, they play a key role in nation building activities, which take the economy in the right direction. PSUs provide leverage to the Government (their controlling shareholder) to intervene in the economy directly or indirectly to achieve the desired socio-economic objectives and maximize long-term goals.

3.2 Public Sector Undertakings in India

The public sector undertakings (PSU) are owned managed and controlled by the government. They were one of the major instruments in the hands of the government of the planned growth of Indian economy; in conformity with the objectives of economic development with social justice. The government-owned corporations are termed as Public Sector Undertakings (PSUs) in India. In a PSU majority (51% or more) of the paid up share capital is held by central government or by any state government or
partly by the central governments and partly by one or more state governments.

The objectives of setting up Public sector undertakings were;

(a) To ensure rapid economic growth and create the necessary infrastructure for the economic development

(b) To promote equitable distribution income and wealth

(c) To promote balanced regional development

(d) To assist development of small scale and auxiliary industries

3.3 Evolution of Public Sector Undertakings

Post Independence, India was grappling with grave socio-economic problems, such as inequalities in income and low levels of employment, regional imbalances in economic development and lack of trained manpower, weak industrial base, inadequate investments and infrastructure facilities, etc. Hence, the roadmap for Public Sector was developed as an instrument for self-reliant economic growth. The country adopted the planned economic development polices, which envisaged the development of PSUs.

Initially, the public sector was confined to core and strategic industries. The second phase witnessed nationalization of industries, takeover of sick units from the private sector, and entry of the public sector into new
fields like manufacturing consumer goods, consultancy, contracting and transportation etc.

The Industrial Policy Resolution 1948 outlined the importance of the economy and its continuous growth in production and equitable distribution. In this process, the policy envisaged active engagement of the State in development of industries.

3.4 Classification of Public Sector Undertakings

Public Sector Undertakings (PSUs) can be classified as Public Sector Enterprises (PSEs), Central Public Sector Enterprises (CPSEs) and Public Sector Banks (PSBs).

The Central Public Sector Enterprises (CPSEs) are also classified into 'strategic' and 'non-strategic'. Areas of strategic CPSEs are:

- Arms & Ammunition and the allied items of defense equipments, defense air-crafts and warships
- Atomic Energy (except in the areas related to the operation of nuclear power and applications of radiation and radio-isotopes to agriculture, medicine and non-strategic industries)
- Railways transport.

All other CPSEs are considered as non-strategic.
3.5 Maharatna/Navratna/Miniratna Status for Public Sector Undertakings

The status of Maharatna, Navratna, Miniratna to CPSEs is conferred by the Department of Public Enterprises to various Public Sector Undertakings. These prestigious titles provide them greater autonomy to compete in the global market.

3.5.1 Maharatna

A company qualifying for the Maharatna status should have an average annual turnover of Rs 20,000 crore during the last three years against Rs 25,000 crore prescribed earlier. The average annual net worth of the company should be Rs 10,000 crore. The Maharatna status empowers mega CPSEs to expand their operations and emerge as global giants.

3.5.2 Navratna

The Central Public Sector Enterprises (CPSEs) fulfilling the following criteria are eligible to be considered for grant of status:

- Having Schedule 'A' and Miniratna Category-1 status.
- Having at least three 'Excellent' or 'Very Good' Memorandum of Understanding (MoU) ratings during the last five years.
The Navratna status empowers PSEs to invest up to Rs. 1000 crore or 15% of their net worth on a single project without seeking government approval.

3.5.3 Miniratna Category I

For Miniratna category I status, the CPSE should have made profit in the last three years continuously, the pre-tax profit should have been Rs. 30 crores or more in at least one of the three years and should have a positive net worth. For category II, the CPSE should have made profit for the last three years continuously and should have a positive net worth.

Miniratnas can enter into joint ventures, set subsidiary companies and overseas offices but with certain conditions. This designation applies to PSEs that have made profits continuously for the last three years or earned a net profit of Rs. 30 crore or more in one of the three years.

3.5.4 Miniratna Category-II CPSEs

Category II miniratnas have autonomy to incur the capital expenditure without government approval up to Rs. 300 crore or up to 50% of their net worth whichever is lower.

(e) To promote import substitution with a view to save foreign exchange
(f) To earn return on investments and thus generate resources for the development

3.6 Empowerment of Public Sector Undertakings

The Government provides Public Sector Enterprises (PSEs/PSUs) the necessary flexibility and autonomy to operate effectively in a competitive environment. The Boards Navarathna and Minirathna companies are entrusted with more powers in order to facilitate further improvement in their performance.

The Public Sector (PS) occupies an important place in the Indian economy. Changes in technology, in the complexity of work, and in the expectations of the public for better service to the society by any organization, puts a premium on innovation as a way to improve the efficiency and effectiveness of operations. Exceptionally, public sector innovation (which relies on incentives, sound control and trust) can be difficult to promote in such a challenging environment, generally tends to shun risk, rather than embrace and manage it.

The capability of the public sector is pivotal to the growth of the economy. BEML has been a role model in the functioning of a public sector organization, which has proven from its remarkable results over a period of five decades.
3.7 Project Management in the Government Sector

Project management in public sector has lot of constraints i.e. to deal with – limited funding, insufficient resources (often heavily unionized), policies and processes that change from one department to the next, multiple irreconcilable priorities that change with every change in management and other problems can torpedo almost any project. Yet some organizations consistently complete projects successfully while most struggle.

A commonly accepted practice in project management is to identify all the stakeholders, gather their requirements and then develop the system based on the requirement, plan a project when it crosses departmental lines and priority should be made and scheduled. Many government projects at all levels of government have failed. Yet, it is possible to successfully manage projects that cross multiple departments with different priorities.

In the past Project Management was traditionally taken as an intuitive and internal process, where some form of project management was practiced in a large number of organizations, both in private and public sectors without any training. However, project management must be looked at as a specialized discipline. This will imply putting in place institutional arrangements and policy support from the government. This study has provided inputs to develop a policy framework to enhance project management in India.
Resistance toward Project Management is caused by a number of factors, the study said, such as quantification of benefits through Project management at most organizational levels was only in terms of time & cost with qualitative improvement hardly conceived as a benefit.

The study also identifies a number of action areas to be addressed by various stakeholders, which included the government, industry bodies and academic institutions to promote the concept of project management.

A government intervention will also strengthen the growing trend among corporations which, following global norms, have begun insisting on professional competence along with experience. As the Indian economy expands, global companies will become an integral part of the nation’s development. Thus, formulating a policy to guide the planning, execution, and accountability of projects becomes desirable.

3.8 Public Sector Projects

Any project whose indulgence is the objective of overall growth obviously falls under the purview of public sector projects such as construction of a river valley, regulating water supply for irrigation purposes through dams and basins, construction and maintenance of national highways, electrical power generation and supply throughout the country, establishing new and cheaper means of transport systems to mobilize goods and services
within and outside the country. In fact, public sector projects are all-pervasive and accommodate every need of civic life of the people in a country. Public sector projects can be defined as:

“Projects or programmes executed under the government regulations, managed and controlled directly by the Centre or State or through its active participation in allocating funds from the public budget (revenue) to invest in the operations of industrial, agricultural, social and commercial enterprises for the express purpose of economic and social well-being.”

“Projects or entities operating or supposed to be operating on commercial principles wholly and partly owned and effectively controlled by a public authority.”

Most of these projects are undertaken by the corporations of public sector such as NTPC, STC, NTC, HZC, FCI, SAIL, IAAL, BHEL, BEML and other departmental undertakings such as Railways and Posts & Telegraph, etc.

3.9 Objectives of Public Sector Projects

Public sector projects are considered to be ‘engines of growth and glued to economic development’. Precisely, the following are the essential objectives:
• To help the rapid economic growth and industrialization of the country and create necessary infrastructure to smoothen the process of growth and development
• To earn a fair rate of return on investment and thus generate resources for development
• To promote redistribution of income and wealth
• To create employment opportunities
• To promote balanced regional development
• To assist the development of small scale and ancillary industries
• To promote import substitution, save and earn foreign exchange for the economy

3.10 CHARACTERISTICS OF PUBLIC SECTOR PROJECTS

Some of the prominent characteristics of public sector projects in developing countries like India are captured hereunder:

3.10 A Positive characteristics of public sector projects:
• Abundant availability of public funds
• Rich and readily available labour force
• Grants and concessions directly from government and no third party involvement
• Easy mobilization of resources wherever and whenever needed
• Concentrates more on domestic resource development rather than on foreign sources of input
• Concentration and proper distribution of national wealth
• An engine of growth and development

3.10.B Negative characteristics of public sector projects:
• Poor export performance
• Corrupt practices while managing resources
• Being vehicles for capital flight and mismanagement of funds
• Poor financial performance
• Overstaffing encourages indigenization
• Dependence on subsidies and unilateral budget transfer
• Highly centralized and politicized organizations
• Exclusion of competitive imports
• Exclusion of domestic competitors

3.11 SIGNIFICANCE OF PUBLIC SECTOR PROJECTS

The precise benchmarking contributions of public sector projects:
• Effectively allocate the available scarce resources amongst the genuinely needed areas of growth and help the economy become self-reliant;
• Regulate and control market mechanism and take economic decisions rationally;
• Provide basic infrastructure in an underdeveloped economy and see that transformation process if smoothened towards growth;

• Provide minimum basic amenities that are essential for public life and justify the budgets allocated during such period

• Create and increase national wealth which spin-offs and the public revenue in the form of taxes and dues and create spiraling effects on the investments;

• Provide benchmarks of performance to the private sector and restrict or regulate their unfair means of project developments;

• Cuts across irregularities in trade practices and renders service to the public;

• Restricts irregular or illegal inflow or outflow of foreign exchange that may affect local currency and stimulates inflationary pressures;

• Maintains equilibrium between various types and sizes of industries through extending timely consultations;

• Clearly the game plan is played in an atmosphere of political intrigue in which the politicians and bureaucrats are deeply involved in wheeling and dealing to protect the interests of economy and society and help advance the country beyond one’s expectations.
The true dilemma of managing the public sector projects can be understood through the following depiction.

Allen Sykes identifies some of the main factors to overcome difficulties in managing these projects as:

- Adequate investigation in the formulation period.
- Necessity for constant reappraisal of viability.
- Commitment of sufficient resources as and when needed.
- Extra management skills as required.
- The experience of project directorate.
### 3.12 Features of Public Sector Projects

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<tr>
<th>Feature</th>
<th>Public Sector Projects</th>
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<tr>
<td>Focus</td>
<td>• Social welfare and economic growth</td>
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<tr>
<td>Decisions</td>
<td>• Decisions are taken at a policy level with a mutual interaction and consent of Planning commission and Finance Ministry.</td>
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| Functions          | • Facilitative and allocative functions.  
                        • Distributive functions.  
                        • Remove market imperfections.                                                                                                             |
| Governing Philosophy | • Trustee of public capital and aims at providing minimum basic amenities of public utility kind.  
                        • Increases national wealth and supplies for society.  
                        • Source of absorption of technology.  
                        • Common ownership of asset.  
                        • Employment security.                                                                                                                      |
| Performance measurement | • Changes in national wealth and contribution to GDP are the yardsticks of performance of public sector projects.  
                        • Secondary indicators of performance and increase in employment opportunities, reduction in inconveniences in public life, internal resource |
| Scope and time span involved | mobilization and increased standard of living of the society.  
  • Contribution toward the total government revenue. 
  • The perspective of public sector projects is macroscopic and launch into complex nature of projects which consume longer periods for execution.  
  • Profit is not a criteria break the private monopoly. |
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<td>Accountability</td>
<td>Since these projects are initiated by the government by investing public revenue towards a social cause, they are totally accountable to the nation and be able to justify such huge expenditures.</td>
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### 3.13 Causes of Failure in Public Sector Projects

Public sector projects are very notorious for their ill-performance and leap-frogging attitude towards implementation. Some of the most common reasons for such failures on the part of public sector projects may be attributed to the following:

- Centralized and delayed decision making with least considerations to emergencies.
- Lack of managerial anatomy and accountability.
- Weak financial discipline leading to financial crisis.
- Poor investment choice, low productivity, excessive leverage.
- Colossal losses justified with social objectives.
- Too many directions and controls leading to chaos and confusion.
- Rigid bureaucratic controls and inflexible plans.

3.14 Performance of Public Sector Projects

3.14 A Factors Enhancing Performance

- Exposure of public sector projects to domestic and foreign competition via more outward oriented trade and industrial policies and less regulation.
- Encouragement of public enterprises to compete among themselves and with private companies in the same line of business.
- Wide publicity in the meetings and in the national press of the comparative performance of different public enterprises.
- Breaking up of overtly centralized and monolithic companies into smaller ones, where economies of scale are not important.
- Reliance on capital markets as primary source of financing.
- Where government debt financing is used, market interests are charged.
- Strict enforcement by government of return on capital criteria, including dividend payment.
• Enterprise not overburden with too many social objectives and where necessary, and compensated for performance of social functions.

• Reduction of operating subsidies, if necessary in a phased way, with the objective of their total elimination.

• Proper debt and equity ration consistent with the business risk.

• Greater transparency in enterprise- government flow to ensure better financial accountability.

• Use of generally accepted accounting standards, timely publication of financial statements, audited by independent private auditors. Also setting up a simple financial performance measure systems.

• Linking of performance to a system of reward and penalties for managers and key staff.

• Clear demarcation of the ownership strategy and operating roles.

• Appointment of professional directors, with relevant experience, and delegation to the strategic decision.

• Delegation of substantial managerial autonomy in day-to-day operations to public enterprise managers.

• Delinking of enterprises recruitment, promotion and salary administration from public service regulations.
• Where necessary, establishment of well focused, sector holding companies with well defined functions.

• Strengthening of oversight agencies for better supervision and setting up of public enterprise focal points for policy making and execution.

• Organization of public enterprise as ordinary stock corporations under corporate law.

3.14.B Factors Retarding Performance:

• Excessive protection from domestic and foreign competition.

• Assignment of monopoly powers or consolidation of several enterprises into single one without any perceived economies of scale.

• Disregard by government and or public manager for financial profitability.

• Excessive reliance on government funds frequently at subsidized rates.

• No pressure on enterprise to make dividend payments or earn adequate return on capital.

• Conflict between social and financial objectives, and predominance of social objectives.

• Excessive reliance on debt rather than equity financing.
- Complicated size of transfer between enterprise and central budgetary authorities.
- Poor quality and delayed financial accounts.
- No accountability for financial performance.
- No financial stake of managers in company’s financial performance.
- Excessive control of and interference with the operations of public enterprises.
- Politicized board directors.
- Little autonomy for public managers in daily operations.
- Multiplicity of agencies involved in coordination, control and supervision of public enterprises.
- Existence of bureaucratic, over-centralized, multi-sector holding companies.

3.15 Tips for Ideal Public Sector Projects

- Choose the right human resource who are best to do it
- (Direct them to apply a simple and high yielding technique
- Ensure a very high return
- Check that the physical resources
- Estimate the market demand for the output to make its own certain the availability of facilities to cope with any contingencies.
• Watch on the fluctuations of price levels and observe general as well as specific trends to avoid and detrimental effects on the project and conk such precarious inflationary conditions.

• See that the output is independent of the imported inputs which are always subject to availability and tariff.

• Generously distribute the incentives among team members of a project who feel ‘big’ with project and make it more successful and reliable for future expansion.

• Emphasize on a genuine political commitment to impose penalties on defaulters to cut across menace of corruption and red-tapium.

• Try to be more practical rather than ‘on the cards’. The rate of increment on the yield should be proved to be attainable at village level and not just on a research station.

• All the proposed contributions of government agencies shall be within their present capacity (that is, not a massive overload of new and different activities on overburdened, undermanned and under-trained agencies).

3.16 Public Sector Project: An Indian Scenario

Most of the public enterprises in public sector were set up after 1975 with main objective being the economic growth and industrialization of the country, to promote redistribution of income and wealth, to create employment opportunities and to promote balanced regional development. It is
necessary to see how effectively they have been carrying out their activities and whether they have been able to meet the social and economic objectives as specified in legislation enacting them. The problems areas are Poor managerial efficiency which has an adverse impact on their performance. The managerial weakness of the public enterprises mainly stem from structural, procedural rigidities, lack of initiative in decision making. Red tape, instability in leadership, weak motivational base. All these factors led to absence of professional management, which is so essential for effective functioning of the public enterprises. Public enterprises have been suffering from too much accountability on one hand and lack of autonomy on the other. There is close control on public enterprise by the parliamentary committee and nominated board of directors thus leading to inflexibility in functioning of public enterprise.

3.17 SUMMARY

Topping among the public sector firms are the organizations like the Indian Oil Corporation, Oil and Natural Gas Commission, Bharat Heavy Electricals Limited, Bharath Earth Movers Limited, Industrial Credit and Investment Corporation of India, Industrial Development Bank of India and Industrial Lease Financial Services and many more on the track whose list is quite exhaustive. A huge amount of money has been invested in these enterprises as equity as well as loans granted by the state government. Hence, it is necessary to evaluate their working and performance. Among these
successful PSUs, the researcher has identified BEML for this research study.

A detailed description about the origin and growth of BEML is given the 4th chapter.