Chapter 1:

A study on the impact of economic reforms on the performance of MTNL

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Chapter 1:  
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1.1. Introduction:  
The term economic reforms as commonly understood currently refers to the stabilization and structural adjustment policies which have come in vogue in varying measures in almost all the countries since mid/late seventies (Sandesara, 1996). Stabilization policies are the macro-level policies affecting government budgets and balance of payments, and structural adjustment policies are the micro level policies affecting the individual sectors agriculture, industry, infrastructure, finance, insurance and so on. These policies seek to reduce the role of the government, thereby correspondingly increasing the role of the private sector and the market in economic activities. This reduction relates to deregulation and decontrol, and to ownership and management of public sector. The purpose of these changes is to promote faster economic growth and eventually a better distribution of income and wealth in the society than would have been achieved under the previously followed policies which focus around strict regulation and control and ownership and management by the government.
1.2. Economic reforms: Theoretical Background

Batley and Larbi (2004) provide an eloquent review of the different aspects of new institutional economics that have shaped public sector reform: Neo-liberalism, public choice theory, principal agent theory, transaction cost economics and property rights theory all supporting the economic reforms and proved the failure of public sector model.

The classical economic theory, on which neo-liberal thinking is based, stresses the superiority of the free market in the efficient distribution of goods and services. In this view government intervention is only necessary in preventing certain market failures (monopoly, information asymmetries, etc.). Classical economic theory therefore supposes limited government action, and strongly opposes large scale regulation by the government. Instead, neo-liberals have argued for wide scale fiscal deregulation, and decreasing the role of the government (Jooste, 2008).

Government intervention, according to the traditional view should be by public ownership managed through hierarchical bureaucratic administration. Public choice theorists have criticized the traditional view, arguing that public sector reward systems do not promote effective performance, because politicians and bureaucrats are not incentivized to control costs (Mueller, 1979). This leads to bureaucracy being self-serving, promoting an overexpansion of the government, and
various forms of opportunistic behavior. This in turn leads to complicated extensions of bureaucracy aimed at curbing opportunistic behavior, which eventually chokes public sector initiate (Batley and Larbi, 2004).

Related to the above, is the principal-agent theory or agency dilemma which examines the problems that arise under incomplete information and conflicting self-interests when a principal hires an agent. In the context of public management, the principal can be seen as the citizens (or the general public) while the bureaucrats are their agents. The asymmetry of information and a self-serving interest in the bureaucracy has led to opportunistic behavior in public administration. In this way, principal-agent theory has motivated public sector reform with an emphasis on performance measurement (in response to information asymmetries) and incentive structure (in response to conflicts of interest) (Jooste, 2008).

Transactions cost economics provides a further basis for determining the most efficient structure of service delivery, by identifying that transaction costs are higher when delivered by the market as opposed to a hierarchy (delivering the service in-house). The decision to deliver services via the hierarchy is then be determined by aggregating transaction costs with production costs (Williamson, 1996).
A final theoretical area is property right theory, which explores the incentives for performance in private ownership, and therefore is helpful in determining how this can be brought to bear in public sector service delivery. Specifically it identifies that managers and employees can be incentivized to perform by sharing in residual firm revenues (e.g. though bonus schemes, pay increases, etc.). This has led to proposals for governance reforms seeking to align public sector managers’ incentives with the performance of the organization (Batley and Larbi, 2004).

Thus, economic reforms have emphasized markets and competition as a way of giving users a say in public sector activities, as well as increasing efficiency of service delivery. It has therefore led to reforms built on competitiveness, customer quality, transparency and incentives.

1.3. **International scenario:**

Post Economic crisis in the late 1970s and early 1980s, developed countries have been at the center stage of the reforms movement, largely driven by two broad factors: public sector inefficiencies, and liberal economic ideology (Salamon, 2002). These changes have broadly involved a reduction in the role of government, towards greater private sector involvement. This economic reform has however not been limited to the first world nations in which they evolved. These changes have also been suggested, and implemented, in many developing countries throughout Africa, Asia and Latin America (Jooste, 2008).
The debate between public and private sector has raged for over a century in first world politics. The twentieth century saw a full swing of this pendulum, from overwhelming public sector confidence, to a renewed belief in the free market economy. The two drivers of this shift were the Great Depression of the 1930s, and the economic crisis of the late 1970s and early 1980s (Megginson and Netter, 2001). While the Depression was largely seen as a failure of the private sector, the economic crisis was widely perceived as a public sector failure (Rodrik, 2006). These perceptions were the guiding forces that shaped role of government in economic development, firstly the growth of the public sector, and then the dispersion of liberal reforms.

The public sector of most developing nations has reflected a similar pattern. The formation of post-colonial nations following the Second World War had at its core a belief in the merit of an “extensive government”. The 1950s and 1960s therefore saw a strong consolidation of government power, and an emphasis on internal service delivery, in both capitalist and socialist oriented economy. However, a later dispersion of the liberal economic view in the West, coupled with a widespread disillusionment of role of the government in development, eventually led to policy transfer to developing nations. This transfer happened either directly though aid conditionality (most prominently as
part of “structural adjustment loans”), or indirectly through development initiatives (Gupta, 1999).

Although the economic crisis of the early 80’s can be viewed as the central driver for neo-liberal reform, criticism had long been building against public sector delivery, even before the economic crisis. This pessimism of the government, and the need for reform, was also held by two central players in the economic crisis of the 80’s: the World Bank and the IMF. Both institutions propagated the principles of the “Washington consensus” which called for economic liberalization and a reduction of the role of the government for increased efficiency. The wave of reform was soon advocated to developing countries in deep financial problems, and enforced through structural adjustment loans (Rodrik, 2006).

1.4. Difficulties in implementing economic reforms:

The economic reforms implementation was difficult mainly in developing and underdeveloped countries (Mittal and Ashraf, 2006). The economic reforms highly resisted by the governments in developing countries. Also the pressure to reform was external to developing countries as opposed to internally driven reforms in developed countries. Thus, it was difficult to determine who should drive the reforms in developing countries. The reform initiatives in weak democracies were not always successful causing unbalanced
implementations with fiscal changes taking place much faster than lagging economic reforms.

Another difficulty in implementing reforms in developing countries in because of the public sector model was more deeply ingrained in their power structure which affects the level of inclusiveness of benefits for developing countries. In the poorer countries with weak market systems, power and privilege existed in function of government action, and the relief of poverty depended on access to government redistributed wealth. To challenge the public sector model therefore risked challenging the foundations of the government and its legitimacy (Jooste, 2008).

1.5. Indian scenario:

In India, the need for a policy shift had become evident much earlier, as many countries in East Asia achieved high growth and poverty reduction through policies which emphasized greater export orientation and encouragement of the private sector (Reddy,2002). India took some steps in this direction in the 1980s, but it was not until 1991 that the government signaled a systemic shift to a more open economy with greater reliance upon market forces, a larger role for the private sector including foreign investment, and a restructuring of the role of government.
1.5.1. Rational for economic reforms in India:

After Independence, to fulfill economic and social objectives India adopted the path of planned economic development with a distinct predominance of socialist ideology. Economic objective was specified as growth, and the social objectives were self-reliance, self-sufficiency in food grains, balanced regional development, prevention of concentration of economic power in private hands, promotion of employment, egalitarian distribution of income and wealth and so on (Jalan, 2002). And to accomplish these objectives, a number of legislative and other measures to regulate and control various economic activities in the fields of industrial relations, licensing, prices, trade, monopolies and restrictive practices, foreign exchange, etc. were adopted.

Similarly, expansion of the area of public sector by starting new enterprises and by nationalization/take-over of a number of private enterprises in the fields of banking, Insurance, trade and industry are also the other measures in this framework (Kaur, 1983). The period of the first three decades or so since 1947 is marked by a large number of a variety of policies and measures in these directions. To name some of the more significant policies and measures in this context are the 1948 and the 1956 Industrial Policy resolutions. The 1951 Industries (Development and Regulation) act; the industry-oriented planning with
special emphasis on basic and key industries to be developed in the public sector since 1956; the nationalizations of the Imperial Bank of India and the life insurance business in 1955 and 1956; the establishment of the Industrial Development Bank of India and the Unit Trust of India in the public sector in 1948, 1964 and 1964; MRTP Act, 1969; directives to financial institutions/banks to orient their lending to social sectors and backward areas in 1969; nationalization of non-life business in 1971; and so on.

However, as these policies unfolded in practice, it was noticed that these policies were found to be out of line with reality. Firstly, those who controlled the government power and those who has influence on the government to regulate private enterprise and to run public enterprise were widely believed to fulfill largely the narrow, partisan, parochial interests and only subsidiary the larger, general public good (Jalan,1993).

Secondly, public sector has yielded poorer rate of return on capital employed and a large number of public sector enterprises yielded losses persistently more or less throughout and, thus, came to be perceived as anti-growth enterprises (Ahuja and Majumdar,1998).

Thirdly, while industrial growth during the early period of planning was quite good it had begun slowing down since mid-sixties. The trend rate of growth of industrial production (1980-81 base) was 7.3 per cent.
during 1951-65 but was only 4.3 per cent during 1966-74. A similar
decline was noticed for each of the subsectors of mining and quarrying
(5.9 and 2.6 per cent), Manufacturing (7.2 and 4 per cent), and
Electricity (13.6 and 9.1 per cent) (Dholakia, 1978).
Finally, one must also consider the influence and the impact of world-
wide changes towards the new set of policies on the Indian policy
makers. Mrs. Thatcher's and Mr. Regan's practices of liberalization
policies in their countries seem to have given a special boost to reforms
in a large number of other countries as well. Added to this was the
influence of the multi-lateral agencies which insisted upon the adoption
of reforms while giving assistance. India could not have remained
immune from this global current.

1.5.2. Early Reforms: 1980s

From the mid/late seventies began the process of learning the lessons
from the experience of the working of the past policies. There are
various committees to review the working of the previous policies and
to suggest remedial measures, abandonment of and modifications in the
old policies and measures, and adoption of new policies and measures
following the recommendations of these committees.

Reports of the Committees on (1) Import-Export Policies and
Procedures (Chairman: P.C. Alexander, 1978), (2) Controls and
Subsidies (Chairman: Vadilal Dagli, 1979), (3) Export Strategy
(Chairman, Prakash Tandon, 1980), (4) Trade Policies (Chairman: Abid Hussain, 1984), (5) Public Enterprises Policy (Chairman: Arjun Sengupta), (6) Principles of a Possible Shift from Physical to Financial Controls (Chairman: M. Narasimhan, 1985), and (7) Working of the Monetary System (Chairman: S. Chakravarty, 1985) have significant role in shaping the reform policies in India (Jalan, 1993).

As a step to reforms in policies and measures government began by calling a halt to increased government intervention and then by initiating reduction in the areas of controls / regulations in licensing, trade, prices, etc. and opening up of the areas earlier reserved for the public sector for the private sector. The list of reforms initiated in specific areas namely Raising the income-tax limit, raising successively the limit of investment for licensing, delicensing a number of industries, broad-banding, stream-lining of licensing procedures, raising investment limits of MRTP companies and exemption to such companies from some provisions of the MRTP Act and so on. Also, the relative importance of the public sector in total investment in the plans has been successively reduced from 61 per cent in the Fourth Five Year Plan to 58 percent, 53 percent, 48 percent, and 45 percent in the successive Plans.
1.5.3. Post 1991 reforms: Major steps

The nineties witnessed not merely the continuation, but the acceleration of reforms, especially during 1991-92 and 1992-93, that liberalization in India is widely believed to have begun in 1991 (Ahluwalia, 2002).

Some of the major reforms in policies during the nineties were: Depreciation of the rupee, partial and later full convertibility of rupee on trade account, and other liberalizations in regard to trade policies, industrial policies having a bearing on licensing, foreign investment/technology, MRTP, company investments, opening up of a number of areas for private sector, lending rates by financial institutions and banks and reduction in statutory liquidity ratios. Mention must also be made of the freeing of capital market from government control, abolition of the office of the Controller of Capital issues, operationalisation of the National Renewal Fund, and a removal or reduction of excise and import duties from a large number of items. Also substantial liberalization in financial and insurance sectors and in the area of industrial relations is take place post 1991 (Tendulkar and Bhavani, 2007).

The Central Government's initiatives begin with the new industrial policy for large industry in July 1991, followed by the new small enterprise policy in August 1991 and the follow-up changes. Later, state governments followed with changes in their own policies to bring them
in line with the reforms of the Central Government. The following section highlights specifically the reforms in industry and related areas. The principal reforms in that order are present below.

**Licensing:** Industrial licensing was abolished except for a limited number of 15 items related to security and strategic concerns, social reasons, hazardous chemicals, environmental reasons and luxury consumption goods.

**Public Sector:** The number of industries reserved for the public sector is reduced to 6. These include: defense products, atomic energy, coal and lignite, mineral oils, railway transport, and minerals specified in the schedule to the Atomic Energy Order, 1953. This reservation principle, it may be noted, is followed by the qualification that even there private participation in some of these sectors is permitted on a case by case basis. Also, more and more private initiative is encouraged in the development of infrastructure like power, roadways, telecommunications, shipping and ports, airports, civil aviation, etc. Further 3 industries opened for private sector and remaining 3 industries specifically defense aircrafts and warships, atomic energy generation, and railway transport are solely reserved for public sector.

**The MRTP Act:** The MRTP Act has been amended to remove the threshold limits of assets in respect of MRTP Companies and dominant undertakings. This eliminates the requirement of the prior approval by
the Central Government for expansion, establishment of new undertakings, mergers etc and for appointment of certain directors by the large companies/houses.

**Foreign Investment and Technology:** There is now automatic approval of foreign investment up to 51 per cent and permission for foreign technology agreements for 35 priority industries. These industries account for about 50 per cent value added of manufacturing sector.

**Small-Scale Enterprises:** Small-scale industries are presently defined as small-scale industrial units with capital investment in plant and machinery not exceeding Rs. 60 lakh (original value) and when ancillaries not exceeding Rs. 75 lakh (original value). The definition has a further subcategory of tiny units in industry and some related services, bounded by the limit of Rs. 5 lakh (original value). A new policy for this sector announced in 1991 articulate that the primary objective of the reforms is to impart "more vitality and growth impetus" to this sector. With this view, some of the old schemes/measures for this sector have been modified.

**State government Reforms:** Following the initiatives of the Central Government, almost all of the State Governments appointed task forces to review their existing policies and measures, and bring them in line with those of the Central Government.
It would be noticed from the above that the thrust of reforms has been to remove entry barriers, to open out the economy to foreign goods, investment and technology and to facilitate the growth of the small-scale sector.

The study is concerned specially with industrial reforms. Therefore the policy changes related to micro level industries is studied in detail.

1.6. Reforms in Industrial Policy:

Reforms in industrial policy were a central focus of much of India’s reform effort in the early stages. Industrial policy prior to the reforms was characterized by multiple controls over private investment which limited the areas in which private investors were allowed to operate, and often also determined the scale of operations, the location of new investment, and even the technology to be used. The industrial structure that evolved under this regime was highly inefficient and needed to be supported by a highly protective trade policy, often providing tailor-made protection to each sector of industry.

1.6.1. Industrial Policy Statement:

Industrial policy has seen the greatest change, with most central government industrial controls being dismantled. The process of deregulation was initiated in the mid-seventies as a follow up of the recommendations of a series of committees which examined India’s trade and industrialization policies in the context of the country’s poor
export performance. Further, the Industrial Policy Statement of 1980 allowed automatic enhancement in licensed capacities and regularization of the excess capacities established in contravention of the then existing laws. The eighties witnessed another series of Committees which provided a justification for further deregulation of the industrial sector. In 1985 and 1986 major relaxations were allowed through broad banding, partial delicensing, re-endorsement of capacities, enlargement of the list of industries open for MRTPA/FERA companies, exempting MRTPA companies from the obligation of seeking approval under the MRTP Act in case of 27 high technology and heavy investment industries. Exemption limits under the Capital Issues Control Act, 1947 were also enhanced to free a large number of companies from seeking approval under the Act.

The Statement on Industrial Policy, 1991 (IPS 1991) and other measures announced during the year marked acceleration of the trends towards deregulation and an enlarged scope for large private Indian and foreign capital. Industrial licensing by the central government has been almost abolished except for a few hazardous and environmentally sensitive industries. The requirement that investments by large industrial houses needed a separate clearance under the Monopolies and Restrictive Trade Practices Act to discourage the concentration of economic power was abolished and the act itself is to be replaced by a new competition law
which will attempt to regulate anticompetitive behavior in other ways. IPS 1991 virtually abandoned the industrial licensing system under the IDRA, removed restrictions on large industrial houses under the MRTP Act and dispensed with the general ceiling of 40 per cent on foreign equity under FERA. The policy mix included increasing external competition through lowering of customs duties and relaxations in the quantitative restrictions.

This was followed by dismantling of the Directorate General of Trade and Development (DGTD) and the repeal of Capital Issues Control Act, 1947. Thus, the process of freeing the private sector from regulations and enabling it to respond to market forces was nearly complete. Government’s response to the shortcomings of the regulatory system was in winding it up. The alternative policy choice could be in affecting administrative reforms and system’s genuine restructuring. This remains unattended.

The list of industries reserved solely for the public sector, which used to cover 18 industries, including iron and steel, heavy plant and machinery, telecommunications and telecom equipment, minerals, oil, mining, air transport services and electricity generation and distribution has been drastically reduced to three: defense aircrafts and warships, atomic energy generation, and railway transport.
The main area where action has been inadequate relates to the long standing policy of reserving production of certain items for the small-scale sector. About 800 items were covered by this policy since the late 1970s, which meant that investment in plant and machinery in any individual unit producing these items could not exceed $250,000. Many of the reserved items such as garments, shoes, and toys had high export potential and the failure to permit development of production units with more modern equipment and a larger scale of production severely restricted India’s export competitiveness. The Report of the Committee on Small Scale Enterprises (1997) and the Report of the Prime Minister’s Economic Advisory Council (2001) had both pointed to the remarkable success of China in penetrating world markets in these areas and stimulating rapid growth of employment in manufacturing (Ahluwalia, 2002). Both reports recommended that the policy of reservation should be abolished and other measures adopted to help small-scale industry. While such a radical change in policy was unacceptable, some policy changes have been made by removing fourteen items from the reserved list in 2001 and another 50 in 2002. The items include garments, shoes, toys and auto components, all of which are potentially important for exports. In addition, the investment ceiling for certain items was increased to $1 million.
Industrial liberalization by the central government needs to be accompanied by supporting action by state governments. Private investors require much permission from state governments to start operations like connections to electricity and water supply and environmental clearances. They must also interact with the state bureaucracy in the course of day-to-day operations because of laws governing pollution, sanitation, workers’ welfare and safety, and such. Complaints of delays, corruption and harassment arising from these interactions are common. Some states have taken initiatives to ease these interactions, but much more needs to be done (Ahluwalia, 2002).

A joint study by the World Bank and the Confederation of Indian Industry found that the investment climate varies widely across states and these differences are reflected in a disproportional share of investment, especially foreign investment, being concentrated in what are seen as the more investor-friendly states (Maharashtra, Gujarat, Karnataka, Andhra Pradesh and Tamil Nadu) to the disadvantage of other states (like Uttar Pradesh, Bihar and West Bengal). Investors perceived a 30 percent cost advantage in some states over others, on account of the availability of infrastructure and the quality of governance. These differences across states have led to an increase in the variation in state growth rates, with some of the less favored states actually decelerating compared to the 1980s. Because liberalization has
created a more competitive environment, the pay off from pursuing good policies has increased, thereby increasing the importance of state level action (CII-World Bank, 2002).

1.6.2. Foreign Direct Investment:

The most significant reforms taken place in India is foreign direct investment. The logic of allowing foreign direct investment was to create a free and fair market for the various public private, domestic/foreign companies. This has also increased the inflow of foreign direct investment which helps in reducing balance of payment crisis post 1991 (Singh, 2005). The other advantage of FDI in various sectors is that it improves the production technology. This allows the domestic as well as foreign companies to produce the goods and services at a very competitive price and make the Indian products globally competitive. The required procedure for FDI is also simplified and the automatic approval is allowed in certain cases. In other cases the, the Foreign Investment Promotion Board established for speeding process of FDI.

The efforts of the economic reforms are showing the fruits in last decades. The GDP is growing at a faster rate, than in 1991. The inward flow of FDI is not only increased but the outer FDI also increased and domestic companies are going global (Chakraborty and Nunnenkamp, 2006). The reforms have created a very competitive environment for
various industries and Indian Products are now globally competitive. The technology upgradation in various industries has increased the number of efficient companies than in 1991. The Indian companies are partnering with foreign companies for strategic reasons and meager and acquisition has been seen in almost every industry. The FDI in India is increased tremendously but it is still very low compared to other emerging countries. Therefore other measures are also needed to increase the FDI in India (Singh, 2005).

1.6.3. Infrastructure Development policy:

The reforms also impacted the infrastructure development in the country. The development in electric power, road and rail connectivity, telecommunications, air transport, and efficient ports is tremendous in last decade. The infrastructure development in India is at par with some of the Southeast Asian countries. The more and more private investment in telecommunications, electricity, ports and air transport has made these sectors competitive.

1.6.4. Privatization policy:

Initially, the development of Indian economy is solely depends on the public sector which accounts for about 35 percent of industrial value added in India (Gupta,1999). But the inefficiency associated with public sector has caused the privatization in some of the sectors. Privatization
is also one of the significant reforms in last two decades. The process of privatization in India is different from the other countries around the world. The privatization process of selling a minority stake in public sector enterprises while retaining management control with the government, a policy described as “partial privatization” or “disinvestment” (Gupta, 2008). The sole objective of privatization process was to mobilize revenue for the budget. The partial privatization or disinvestment policy had very limited success because of revenue from disinvestment were consistently below budget expectations.

In 1998, the policy makers allow transfer of management control to private stakeholders when 74 percent of the equity of Modern Foods India Ltd. was sold to Hindustan Lever. Then the other public sector enterprises like BALCO, Hindustan Zinc; (CMC) Computer Maintenance Corporation; Lagan Jute Machinery Manufacturing Company, several hotels, VSNL, IPCL, and Maruti Udyog Ltd were privatized reducing the government share below 50% (Mathur, 2004). The privatization of these companies has some problems associated with them. But the problem is not with the privatization process but on the transparency and pricing issue. The transparency in the bidding process was the real concern for some stakeholders because of the ambiguity and also on the price realized by the privatization (Arun & Nixson, 2000).
The privatization of public sector enterprises mainly focusing on the loss making PSEs but government also insist on the selling of profit making companies. However, the opposition for selling public sector enterprises making large profits such as those in the petroleum and domestic telecommunications sectors.

Nowaday, a focus of policy makers to earmark the proceeds of privatization is to finance additional expenditure on social sector development and for retirement of public debt. This will help in reducing the government spending on social sectors like education and healthcare (Naib, 2004).

The state government also started privatization of state public sector enterprises. The majority of State PSEs are loss making and thus it is seen that the proceeds received from them is not significant. But privatization has reduced the burden on government by shelling of loss making and inefficient enterprises which are turnaround by private sector companies. The efficient management and dynamic decision making has caused the turnaround in the privatized public sector enterprises.

1.7. Telecommunication sector in India:

Telecommunication serves in India was introduced in 1851 when the first operational land lines were laid by the government near Kolkata (then Calcutta) but the telephone services were formally introduced in
India 1881. Post independence the nationalization of all the foreign telecommunication companies created a Posts, Telephone and Telegraph (PTT), a body that was governed by the Ministry of Communication. The monopoly of government was broke in 1984 when Indian Telecommunication Institute (ITI) was established to manufacturing telecommunication equipment (Subramanian, 2004).

In 1984, the government established Centre for Development of Telematics (C-DOT), a R&D unit, to develop state-of-the-art telecommunication technology.

The entire development of the telecom industry can be classified into three distinct phases.

- Phase I- Pre-Liberalization Era (1980-89)
- Phase II- Post Liberalization Era (1990-99)
- Phase III- Post 2000

The role of government is significant in development of the telecommunication industry. As a result of economic reforms since 1980s, the Indian telecom market is one of the most developed markets in the world with private participation in almost all of its segments (PricewaterhouseCoopers, 2011). The reforms in regulatory policies and structural changes in the functioning of the industry has successfully transformed the monopolized market into a most competitive and developed market in the world. The growth in the services sectors
especially IT and ITeS sector has increased the importance of the
telecom industry in India. A telecom service has emerged as a key
infrastructure for economic and social development of the economy.
The telecom industry is also facilitating the development of other
industries like transport and logistics, Information technology,
entertainment and media.
Reforms in the regulatory policies relating to telecommunication
industry mainly focus on National Telecom Policy. The first National
Telecom Policy was designed in 1994 to accelerate the growth of the
telecom sector (TRAI, 2012). The NTP-94 was emphasis on protecting
and promoting consumer interests and ensuring fair competition. The
policy reflected an ambitious approach in setting the targets, but adopted
a cautious approach in dealing with the issues of liberalization in the
telecom sector.
Then the NTP-99 was introduced in 1999. It brought changes such as
migration from fixed license fee to revenue sharing rule and cost-
oriented telecom tariffs. The NTP-99 was amended in 2003 and
initiatives such as unified access licensing regime, reduced access
deficit and calling party pays (CPP) that has provided further
momentum to the sector (TRAI, 2012).
Today, the Indian telecom industry is characterized with intense
competition, and continuous price wars. Currently, there are around a
dozen telecom service providers who operate in the wired and wireless segment. The call rates are lowest in the world and growth rate is highest in the world. The government has been periodically implementing suitable fiscal and promotional policies to boost domestic demand and to create volumes for the industry.

1.8. Mahanagar Telephone Nigam limited:

Mahanagar Telephone Nigam Limited (MTNL) is a Navratna public sector enterprise providing the telecommunications service in the two metro cities, Mumbai and New Delhi. MTNL was formed in 1986 with the sole objective to provide world class telecommunication services in these metro cities. Till 1992, the telecommunication service in Mumbai and New Delhi is monopolized by MTNL thereafter the telecom sector was opened to other service providers. MTNL provides fixed telephones, cellular services, Broadband and other telecommunication service in Mumbai and Delhi. MTNL provides mobile services on GSM and CDMA platforms.

The telecommunications market in the cities of Delhi and Mumbai are most competitive markets. MTNL faces intense competition from the other mobile operators and the basic service providers. This has led to an increased pressure on margins due to reducing tariffs and also on the customer retention and acquisition. The average revenue per user is also reduced.
Economic reforms and liberalization have converted MTNL from state owned monopolies to player in a highly competitive market with no social or other non commercial objectives. They will have to be run like other private sector telecom companies if they want to survive and prosper. However, MTNL have shown poor performance in recent years in the face of private sector competition. This has been criticized by the various segments about the role of government in the highly competitive sector. Also the efficiency of management of MTNL is also under question. Therefore it is necessary to understand the impact of reforms on the performance of MTNL in last 10 years when the results of reforms actually seen.