CHAPTER I

INTRODUCTION

The philosophy of lassiez faire propounded by the classical economists dominated the economic and political scene of the world till the first quarter of twentieth century. However, this philosophy failed to provide convincing answer to the Great Depression which prevailed in the world between 1929 to 1934. Keynes argued a case in favour of state intervention to remove the symptoms of the Great Depression. The key capitalist countries adopted Keynesian prescriptions and succeeded in removing the Great Depression. Second World War and liberation of Asian and African Countries from the imperialist forces further consolidated the philosophy of state intervention in economic affairs. Though the less developed countries could regulate and intervene in economic affairs through monetary and fiscal policies, yet the predominance of non-monetized sector acted as a constraint on their effectiveness. It was owing to these circumstances that the less developed countries decided to use direct investment in industrial and commercial establishments through public enterprises to initiate the process of economic development.

The public sector has attained a pivotal position in Indian economy. The origin of public enterprises in India
can be traced through the various Industrial Policy Resolutions, Five Year Plans and other documents of Government of India. The Industrial Policy Resolution of 1948 envisaged a greater role for the state in the economic development of the country. However, it stated that in view of the limited resources at the disposal of the government it should concentrate on the expansion of units of production already under its control and the setting up of new industries rather than on nationalising existing units in the private sector. The Industrial Policy Resolution of 1956 suggested that all the industries of basic and strategic importance or of public utility should be established in the public sector. Further, it stated that other industries which required huge investment and in the present circumstances, which only state could provide, should also be established in the public sector. In this resolution, industries have been classified into three categories. The first category consists of industries like arms, ammunition and defence equipment, iron and steel, heavy castings and forgings, heavy electrical plants, coal, mineral oils, important metals, aircrafts, and ship building, etc. the development of which would be the exclusive monopoly of the state. The second category, consisting of products like machine tools, ferro-alloys, antibiotics, and other essential drugs, fertilizers and the like would be progressively state owned. The remaining industries are left to the private sector though the state
can also participate if necessary. The various Industrial Policy Statements of 1973, 1977, 1980 and 1985 and Five Year Plans of Government of India re-emphasised the role of public sector in the economic development of the country. However, the domestic resource crunch and the conditionalities of the World Bank - International Monetary Fund (IMF) combine have forced the Government of India to bring drastic changes in its economic policies in tune with the market forces. The Government of India announced the New Economic Policy on July 24, 1991. The main provisions relating to the public sector included in the policy are:

(a) The public sector investments will be reviewed with a view to focus the public sector on strategic, high-tech and essential infrastructure.

(b) Public enterprises which are chronically sick and which are unlikely to be turned around will, for the formulation of revival/rehabilitation schemes, be referred to the Board for Industrial and Financial Reconstruction (BIFR).

(c) Disinvestment of public sector shares in order to raise resources and encourage wider public participation.

(d) There would be greater thrust on performance improvement through the Memorandum of Understanding (MOU) system.

Consequently, the list of industries to be reserved for the public sector has been revised and limited to only eight
industries\(^1\). Government has also abolished industrial licensing for all projects except for a short list of industries (seventeen industries)\(^2\) related to security and strategic concerns, social reasons, hazardous chemicals and overriding environmental reasons and items of elitist consumption for which licensing will be compulsory. To encourage direct foreign investment, the industrial policy promises approval upto 51 percent for foreign equity in high priority areas. Thus, the role of the public sector which was sought to be enlarged in the Industrial Policy of 1956 will henceforth be limited to essential infrastructure and defence and more and more areas will be opened to the private sector. However, the impact of these changes on public enterprises would be felt with the passage of time. The major objectives of the public sector in India are\(^3\):

(a) to promote economic development and growth;
(b) to promote self-reliance in strategic sectors and diversify the economy;
(c) to prevent concentration of economic power;
(d) to reduce regional and social imbalances;
(e) to effect equitable distribution of income through

\(^2\) *ibid.*, pp. 32-33.
(f) to generate surpluses for reinvestment; and
(g) to assist ancillary units.

Indian constitution is federal in character. Hence, to achieve these objectives, both the centre and the states have been setting public undertakings. In the recent past only the Central Level Public Undertakings have been the focus of the researchers and the State Level Public Enterprises (SLPEs) have been neglected. No doubt some stray attempts have been made but the working of State Level Public Enterprises has not been properly investigated.

The State Level Public Enterprises, like their counterpart at Central Level, have also witnessed a rapid growth. An examination of the origin of various SLPEs indicates the following broad reasons:

Firstly, there are some public enterprises which are historical in nature. These enterprises existed even in days prior to Indian independence and catered essentially to public services. The state, even in those days, felt that it was its responsibility to provide services such as electricity and urban transport. Secondly, some of the SLPEs were set up following a central enactment which envisaged the setting up of similar institutions at the state level. The
State Financial Corporations are typical examples. The other SLPEs set up similarly, are the State Warehousing Corporations, the State Seed Development Corporations, etc. Thirdly, SLPEs like Industrial Development Corporation and Agro-Industries Corporations were set up in order to avail themselves of the facilities which the central financial institutions or the Government of India were offering. Fourthly, a number of enterprises were set up by the State Governments towards development of the weaker sections and to be able to receive the funds from the Government of India. They include the Scheduled Castes Welfare Corporations, the Scheduled Tribes Welfare Corporations, etc. Beyond this, all other public enterprises set up or created by the State Government were the result of ad-hoc decisions taken by the Government from time to time, depending upon the local conditions. The explicitly stated reasons for many such SLPEs are that corporate form enables the departmental functions to be performed more expeditiously and with supplemental funds raised from financial institutions.

Classification of SLPEs:

The state level public enterprises have been classified into five groups by the Standing Group of Management of Public Enterprises in the States in its report in 1978. Firstly, there are enterprises which carry out the functions of public services (utilities). These are primarily the
electricity boards and the state road transport corporations. These are normally the oldest amongst the public enterprises in the states. In the second category are the manufacturing enterprises. These enterprises are either created by the State or have come into the public sector following the transfer to Government of the management of the private sector units. The items under manufacturing vary from watches through scooters and refrigerators to bus bodies. To the third category belong the public enterprises charged with trade and marketing, particularly agricultural products. The state marketing federations or state trading corporations, state civil supplies corporations, etc. are examples. The fourth category includes the development corporations which have been promoted by the State Government with a view to promote industrial development. These include the industrial and financial corporations, which are promoted by the government with a view to respond to the growing needs of industrialisation in the respective states. In the fifth category are the welfare corporations which are designed to carry out the welfare programmes for definite target groups, such as the weaker sections of society (scheduled castes/scheduled tribes), minorities, women, physically handicapped persons, etc.

Haryana is a leading state of the Indian Union. The sectoral distribution of State income reveals that Haryana is an agrarian state. However, the farmers of the State are
facing numerous problems like supply of inputs such as fertilisers, seeds, pesticides, tractors, harvestor combines etc. Haryana is surplus in food grains. It was felt that instead of exporting agricultural based raw material to other states, it would be gainful to the state (both in terms of employment and value added) to process the raw material locally and then export agro-industry based products to other states. Keeping these considerations in view, the Government of Haryana established Haryana Agro-Industries Corporation Ltd. in 1967. The major objectives of the Corporation include undertaking, assisting and promoting agro-industries in the state; manufacturing agricultural implements, agricultural machinery and other materials and equipment required for agro-industries; managing engineering or repair shop or workshops of all descriptions; employing distributors and commission agents for sale of products manufactured by the Corporation and purchasing or selling implements, machinery, equipment, appliances, tools etc. on hire purchase system or on payment by instalments.

At the time of inception, the authorised share capital of the Corporation was Rs. 2 crore which was later increased to Rs. 6 crores in the year 1990. The Corporation has its four manufacturing units which include Cattle Feed Plant at Jind; Fertilisers and Chemical Plant at Shahbad; Agro Engineering Workshop at Nilokheri and Food and Fruit Processing Plant at Muruthal. Recently, Solvent Extraction
Plant at Kaithal was closed down due to heavy losses. The Corporation also has sixteen trading and servicing centres in the State located at Ambala, Jagadhri, Ladva, Bheva, Nilokheri, Karnal, Panipat, Sonepat, Palval, Gurgaon, Rohtak, Jind, Bhiwani, Hisar, Sirsa and Narnaul. Thus, the Corporation is performing multi-functions such as manufacturing, marketing and servicing.

Unfortunately, during most of years since its inception the Corporation has been incurring losses. No attempt has been made to evaluate the performance of the Corporation under consideration. The present study has been initiated in this background.

Review of Literature

Many researchers have attempted to evaluate the performance of public sector undertakings. A brief account of the relevant studies is submitted as under:

B. Prasad⁴ argues that in order to analyse the performance of units such as Hindustan Steel Limited (HSL), the criterion of profitability should be used. He points out that HSL making a loss when the Industry is operating in sellers market is intriguing. According to him, the plant is

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not facing any economic difficulty as its capital investment per tonne is much higher. The raw material cost in the HSL was lower than in the private sector plants. He is of the opinion that the major reasons behind the poor performance of HSL are: failure to utilise the installed capacity; decline in output per worker; and poor discipline (as indicated by the fact that, inspite of over-staffing, overtime payments are highest in the HSL).

J.D Mehta\(^5\) concentrates on inventory accumulation in public undertakings. The study covers the period between 1961-62. He found that inventory accumulation was relatively higher in the earlier parts of the period of analysis than in latter years. He observed that the inventory accumulation is relatively higher in the public sector vis-a-vis- the private sector. He recommends reduction in the inventories of public sector.

K.R.P Singh and S.S Sinha\(^6\) in their study have compared the profitability ratio for major public and private sectors units in the hotel industry. The authors come to the conclusion that the public sector units are not performing well on any account. It is argued that in the Hotel Industry,

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the objective can mainly be profit-making and profit can therefore be the most appropriate yardstick for measuring efficiency.

L.N.Gupta\(^7\) has attempted to analyse the financial performance of the Industrial and Commercial undertakings of the Central Government from 1962-63 to 1967-68. The author found that the financial performance of most of the undertakings, irrespective of duration, has shown a downward trend through the years. Factors such as faulty planning with regard to concept, size, location, personnel, raw material, design, choice of processes, equipment, contractual arrangement etc. which have resulted in cost escalation and delays, over capitalisation and over-staffing, defective financial control and audit system, lack of proper pricing policy. Quality and cost of management and industrial relations have contributed to unsatisfactory performance. The performance of Hindustan Steel Ltd. (HSL) and National Coal Development Corporation Ltd. (NCDC) as case studies, has been examined in detail. In the case of HSL, it has been found that causes of present losses are underutilisation of capacity, defective pricing policy, recession and decline in the rate of industrial growth, failure in planning and inefficient management, increase in the prices of raw

\(^7\) L.N.Gupta (1970), A Study of Profitability of Government Companies with Special Reference to Selected Running Concerns, Magadh University, Bodh Gaya.
materials, wages and salaries, labour disturbances, heavy capital related charges, heavy inventory holidays, inefficient management of the plants, etc.

Similarly, in the case of NCDC Ltd. several factors have contributed towards increasing losses, viz, defective estimate and planning, working of the Giridith Colliery under Presidential Directives, heavy investment in virgin areas for the development of new collieries, lack of proper coordination between railways and the Corporation, blocking up of heavy capital in inventories, overstaffing, etc.

M.K. Khullar in his paper argues that performance of the public sector has not been so bad or the performance of private sector has not been so excellent. Further he argues that the comparisons usually made are based on an inadequate understanding of criteria as well as facts. He emphasises the social costs and social benefits criterion and assign lower weightage to the profit criterion. He suggest proper coordination between the economists, the sociologists, the statisticians and the accountants. However, he does not clearly indicate how this is to be done.

M.S. Nigam in his paper has pointed out that public

sector has failed to demonstrate as model employer. He points out that industrial democracy does not prevail in public enterprises and workers indulge in trade union rivalry and maximum of the labour disputes relate to wages and other allowances.

P.K. Bhargava discusses the nature and scope of the public sector and also the financial results of the enterprises in his paper. He found low profitability in case of public enterprises and submitted that the rigidity of rules, low salary, over capitalisation, over employment and establishment of public enterprises in uneconomic fields are the main reasons for poor performance.

R.K. Sinha has highlighted the achievements of public enterprises from the year 1963-64 to 1967-1968. The author is of the view that despite their shortcomings, the public sector enterprises have played a vital role in providing strong industrial base for the nation and they will do so in future also.

S. Chandrasekhar points out that Electricity Boards in

the states are having rate of return around 4 percent. In most of the states the average price charged per unit of electricity has been lower than that of the cost. He has suggested that these undertakings should be run on business lines.

S.C. Nandvani\textsuperscript{13} has pointed out that the profit criterion in case of public enterprises has its own limitations. But there is no substitute for the same and hence he recommends its adoption for performance measurement. He has listed inadequate coordination among the inter-connected projects, the use of public sector projects for enriching the private industry and dominance of bureaucrats as factors explaining poor management of public sector.

S. C. Patnaik\textsuperscript{14} in his study has covered the working of six large government companies in Orissa. After examining the gross and net profits of the Companies, the author has identified some common drawbacks in the management. He has stated that faulty decision making, lack of modern tools and techniques of business management, lack of adequate planning, use of investible funds for non-commercial purposes, unsatisfactory inventory management and centralization in


administration are major stumbling blocks in the working of public enterprises.

S.N. Sinha\textsuperscript{15} has examined the performance of public sector undertakings in terms of their contributions to the general revenues. It has been found by the author that the total contributions (including taxes, dividend and interest) made to the general revenues by the public undertakings covered in the study have been extremely poor. The taxpayer hardly gets any relief from the huge investment by the Central Government.

V.G. Sahasrabuddhe\textsuperscript{16} has attempted to evaluate the performance of public enterprises in Maharashtra on the basis of the objectives laid down. The author observes that public enterprises have failed to achieve the desired objectives in the state. He concludes that in addition to the inadequacies of staff and organisational and financial limitations of public enterprises, the private interests dominating in the economy are responsible for the failure.

Shashank Sharma\textsuperscript{17} has examined the working and role of

\begin{itemize}
\item \textsuperscript{15} S.N. Sinha (1970), "Contribution of Public Sector Undertakings to General Revenue", in \textit{Pramanj}, p. 75
\item \textsuperscript{16} V.G. Sahasrabuddhe (1970), "Public Enterprises in Maharashtra - Evaluation by Objectives", in \textit{Pramanj}, p. 11.
\item \textsuperscript{17} Shashank Sharma (1980-81), Haryana Agro Industries Corporation - A Case Study. Unpublished M.A dissertation, Panjab University, Chandigarh.
\end{itemize}
Haryana Agro Industries Corporation. The period of the study was 1976 to 1978. The researcher has found out that the Corporation has numerous drawbacks like lack of adequate finances, irregular supply of spare parts, inefficient number of service stations. The suggestions include that the Corporation should manufacture its own tractors; appropriate funds should be supplied to the Corporation; the Corporation should meet the total requirements of the farmers and it should maintain adequate stock of spare parts.

Vinit Bansal\(^{18}\) has made an attempt to evaluate the performance of Haryana State Electricity Board mainly on the basis of physical indicators like electricity capacity installed, electricity generated, electricity consumed and electrification done. The statistical tools like index number and compound annual rate of growth have been employed by the author. The overall performance of Haryana State Electricity Board has been computed and compared with the India as a whole. Further, Haryana has been divided into many circles on the basis of administrative convenience and the performance of each circle has been examined. It has been found that performance of Haryana State Electricity Board in terms of electricity capacity installed, electricity generation, consumption and electrification, has been very impressive.

\(^{18}\) Vinit Bansal (1982-83), Performance of Haryana State Electricity Board. Unpublished M.Phil. dissertation, Panjab University, Chandigarh.
The better performance of Haryana can be accredited to long term government policy. Haryana Government has given greater weight to power sector in budget allocation than that in India.

Anil K. Monga\(^{19}\) and Anita Snehi\(^{20}\) have analysed the performance of Punjab Small Industries and Export Corporation and Punjab Films and News Corporation Ltd. respectively. They both evaluated the performance on the basis of financial and physical indicators. In both the cases, it was found that these Corporations were running into losses since its inception except for a few years. The analysis on the basis of ratios and targets and achievements shows that these Corporations are performing hopelessly.

Sanjeev K. Mahajan\(^{21}\) and Satnam S. Bhatt\(^{22}\) have evaluated the financial and physical performance of Road Transport Corporations. The financial performance has been

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judged in terms of capital structure, profit and loss account and financial ratios. The physical performance has been judged with the help of indicators like routes operated, bus services operated and the number of passengers carried by the Corporation fleet, vehicle kilometer per vehicle, vehicle kilometers per employee, vehicle staff ratio, consumption of fuel per litre and average tyre kilometre. They also judged the quality of service on the basis of accidents and breakdowns. In case of Himachal Road Transport Corporation, the capital contribution has shown upward trend. The current ratio, liquid ratio and debt equity ratio are satisfactory whereas working capital turnover ratio, capital employed turnover ratio are low. The physical performance is satisfactory. In case of Chandigarh Transport Undertaking, it has been found that contributions made by the Central Government have been increasing and Corporation is running into losses. The analysis of physical performance indicates that fleet utilisation and vehicle kilometers have experienced rising trend during the study. Vehicle staff ratio was highest in 1983-84. Breakdowns have shown upward trend whereas accidents have declined.

Yammada Saraswathy Rao\textsuperscript{23} in his edited book has dealt with wide range of aspects on state level public enterprises

in Andhra Pradesh. The book has been divided into five sections each dealing with one broad area. In section I, there are papers by J. Satyanarayana, K. Ramakrishna Sarma, K.S. Upadhyaya and Geeta Gowari broadly presenting a base approach to the whole book and providing a background. In section II, there are three papers by D. Ravindra Prasad and P. Venkata Ramana, K.S. Bhat and D. Ravindra Prasad and P. Venkata Ramana dealing with organisation, chief executives and personnel policies. Section III comprises of two papers by K. Sumathi and P. Subramanyam covering financial aspects. Section IV throws

light on a couple of management aspects such as marketing\textsuperscript{33}, Inventory\textsuperscript{34} and group technology\textsuperscript{35}, and role of development corporation\textsuperscript{36}. Fifth and the concluding section very appropriately deals with the social responsibility\textsuperscript{37} and the role of legislature\textsuperscript{38} with regard to the SLPEs.

G. Venkatswamy\textsuperscript{39} in his study has found that overall performance of State Government Enterprises (SGEs) is far from satisfactory. In regard to sectorwise performance of SGEs, the development enterprises have given a return of 1.4\% during the Year 1979-80 when compared to previous year's return of 2.1\%. The number of enterprises earning profit is constant. The service enterprises have continuously incurred losses for the previous two years when compared to 1979-80. During 1979-80 there was a return of 2.8\% even though the

\begin{footnotesize}
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\item \textsuperscript{33} V.Venkaiah (1986), "Marketing Management," in \textit{ibid}.
\item \textsuperscript{34} K.Viyyanna Rao (1986), "Inventory Management," in \textit{ibid}.
\item \textsuperscript{35} Subba Rao Gollapudi (1986), "Application of Group Technology," in \textit{ibid}.
\item \textsuperscript{36} K.Ramakrishna Sarma (1986), "Role of Industrial Development Corporation as Promotional Agencies," in \textit{ibid}.
\item \textsuperscript{37} V.Viswanadham (1986), "Social Responsibility and Performance of Public Enterprise : A Case Study of APSRTC," in \textit{ibid}.
\item \textsuperscript{38} P. Satyanarayana (1986), "Legislature and State Level Public Enterprises", in \textit{ibid}.
\item \textsuperscript{39} G. Venkatswamy (1987), \textit{Management of State Government Enterprises}, Archives Publishers and Distributors, New Delhi.
\end{itemize}
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number of enterprises decreased. The marketing enterprises have comparatively improved their performance when compared to other sectors. The performance of production enterprises was too poor when compared to other sectors.

As for the performance of individual enterprises is concerned, there are few enterprises such as A.P.State Financial Corporation, A.P.Industrial Development Corporation, A.P.State Trading Corporation, which are making profits at the end of 1979-80. A notable feature is that even though they are making profits, the profits have declined. There are few enterprises viz. Singareni Collieries, A.P.Steels which are incurring losses at the end of 1979-80. Lack of objective of profitability, non-implementation of production plans, increase in the cost of production, underutilisation of capacity, excessive inventories, surplus staff are the various reasons responsible for continuing losses.

R.P. Sarma\textsuperscript{40} in his study has dealt with various principles of evaluation of public enterprises. He has advocated that in a backward economy like Orissa the performance of public undertakings should be judged by undertaking an evaluation approach combing operational analysis and financial analysis. His study reveals that the

\textsuperscript{40} R.P.Sarma (1987), Investment Pattern of Public Undertakings in India, Mital Publications, Delhi.
performance of the state enterprises remained far from satisfactory. The various reasons for this poor show include under-utilisation of capacity, low asset turnover, high debt, composition of capital and managerial inefficiency. These can be removed by considering the following recommendations: qualified persons in business management should be posted to manage the enterprises, the employees should be motivated by better pay and fringe benefits, promotions could be on merit and performance, and there ought to be employee's representation in the Board of Directors.

T.K.Jain et al. in their paper points out that the major reasons of the poor performance of public sector are: failure to define and codify the basic objectives of public enterprises; governmental interference; overstaffing; etc. The authors are of the opinion that holiday from the public sector would not be a real wise step. What is needed is the political will to ensure that the public enterprises work in a more free and autonomous environment.

R.K. Mishra has divided his edited work into three parts. Part one deals with the performance of public sector


42. R.K Mishra, S Ravishankar & R. Nandprasad, Management of State Level Public Enterprises In India, National Publishing House, New Delhi.
enterprises in different state namely Andhra Pradesh\textsuperscript{43}, Assam\textsuperscript{44}, Bihar\textsuperscript{45}, Gujarat\textsuperscript{46}, Himachal\textsuperscript{47}, Kerela\textsuperscript{48}, Karnataka\textsuperscript{49}, Maharashtra\textsuperscript{50}, Nagaland and Tripura\textsuperscript{51}, Orrisa\textsuperscript{52}, Punjab\textsuperscript{53}, Rajasthan\textsuperscript{54}, Uttar Pradesh\textsuperscript{55}, Tamilnadu\textsuperscript{56} and West

\begin{itemize}
\item K. Viyyanna Rao and G. Prasad (1989), "State Level Public Enterprises in Andhra Pradesh" in \textit{ibid.}
\item Anil Kumar Sarma (1989), "State Level Public Enterprises in Assam" in \textit{ibid.}
\item L. Dayal (1989), "State Level Public Enterprises in Bihar" in \textit{ibid.}
\item M.N. Aggarwal (1989), "State Level Public Enterprises in Gujarat," in \textit{ibid.}
\item H.N. Ray (1989), "State Level Public Enterprises in Himachal Pradesh," in \textit{ibid.}
\item G. Krishan Kutti (1989), "State Level Public Enterprises in Kerela," in \textit{ibid.}
\item G. Thimmaiah (1989), "State Level Public Enterprises in Karnataka", in \textit{ibid.}
\item M.S. Gosavi (1989), "State Level Public Enterprises in Maharashtra", in \textit{ibid.}
\item Sujit Sikidar (1989), "State Level Public Enterprises in Nagaland", in \textit{ibid.}
\item Anil Minhas (1989), "State Level Public Enterprises in Punjab," in \textit{ibid.}
\item Bhupinder Hooja (1989), "State Level Public Enterprises in Rajasthan," in \textit{ibid.}
\item Jagdish Prakash and M.B. Shukla (1989), "State Level Public Enterprises in Uttar Pradesh," in \textit{ibid.}
\item K.J.M. Shetty (1989), "State Level Public Enterprises in Tamil Nadu," in \textit{ibid.}
\end{itemize}
Bengal. Part II covers special issues in state level public enterprises management, project management and investment decisions, corporate reporting and materials management. Some area studies of state level Public enterprises figures in part III of the book. The study reveals that state public sector enterprises use vital instruments of public policy for the states of the Indian Union, there has been a spectacular growth in the number as well as investment in these enterprises. Their financial performance has been utterly dissatisfying. The total management performance is in chaos. The position with regard to internal generation of resources was dismal. Their accounting systems are in disarray. The book outlines to improve the art of working capital management and formulation of appropriate strategies for fuller-utilisation of capacities created which would go a long way in improving. In addition, it suggests that the state level public enterprises would have to correct the imbalance in debt-equity mix to turn the corner.

B.S.Ghuman in his paper has analysed the growth of state level public enterprises in Punjab. The author is of the opinion that although the investment has increased at a


rapid rate yet these undertakings are making losses which are due to various reasons. Firstly, lack of clearcut policy with regard to public sector has provided an opportunity to the management to justify any outcome. Secondly, organisation and managerial factor also partly explain losses incurred by the public sector enterprises because of dominance of bureaucrats on the board. Lastly, power, irrigation and transport sectors contribute more than eighty percent to the total losses. The main reason is that the price per unit in these undertakings in fixed by the State Government without taking into account cost escalation of inputs. He has suggested that performance of these public enterprises can be improved by linking policy with the planning process, granting real autonomy, linking prices of power, irrigation and transport sectors with costs of inputs.

B.G. Shirsat and S.R.Kasbekar\textsuperscript{60}, points out that although it is observed that overall financial performance of public sector enterprises are unsatisfactory, some enterprises have done quite well. The authors have selected three profit making companies (Bharat Heavy Electricals Ltd. Maruti Udyog Ltd. and Rashtriya Chemicals & Fertilizers) and three loss making companies (Heavy Engineering Corporation, Hindustan Fertilizers Corporation and Indian Drugs &

Pharmaceuticals Ltd.) to study possible causes which affect the performance of public sector enterprises. It is observed that the three profit making companies which managed their affair well, witnessed higher capacity utilisation, controlled the raw materials consumption and salaries and wages. The three loss-making enterprises faced a severe liquidity crisis as well as heavy loans that entailed a high interest burden. Consequently, either there was an erosion in profits, or increase in the losses. The authors are of the opinion that the public sector enterprises can no longer afford to be lame ducks as economic environment becomes more and more competitive in future.

S.D. Naik in his paper expresses concern over the poor performance of the public sector enterprises. He is of the view that whatever may be the reasons, the fact remains that public sector has become a big drain on the exchequer. There is an imperative need to redefine the role of the public sector. With the deepening and widening of industrial and entrepreneurial base in the country, the rationale of the Industrial Policy Resolution, 1956 to reserve a large number of industries for development exclusively in the public sector no longer holds good. The author suggests that except defence and certain strategic areas, entry of the private

sector will help in playing a complementary role and also create a competitive environment.

V.V.Ramanadham\(^{62}\) presents a critique of public enterprises, analysing why its performance has fallen short of expectations. The book is divided into four parts. Part one is concerned with the establishment of public enterprises and the circumstances in which they emerged. Part two reviews the working of the public enterprises: the state of their financial performance, the peculiarities of pricing, the determination of targets which they should meet, the continuous monitoring and evaluation of their operations. Macro concerns such as the links between public enterprises and the public exchequer, the level of indirect taxation and subsidisation implicit in the pricing structures of public enterprises and the implications of their operation's for distributional equity are the focus of part three. Part four deals with the extent to which privatisation can solve the problems of public enterprises. The author is of the opinion that in most of the developing countries, the public enterprises have been conceived as an instrument of development strategy. In general the financial performance of public enterprises has been unsatisfactory in most countries, developed and developing, in all regions. Annual returns have

been low, there are large accumulated losses and capital write-offs have been frequent. The causes of public enterprises deficits, according to the author include investment factors, exogenous factors, structural factors, governmental interventions and managerial inefficiency. Commenting on the future of public enterprises, the author says that the initial era of bias for it has ended. There is clear awareness of the proposition that public enterprises is a means to an end, the end being national well-being and not an end in itself, that the end is more important than the means and the means should be suitably revised in the interest of accomplishing the end.

M.L. Nandrajog63 in his paper argues that in the existing state of the Indian economy, the state has a definite role to play- to tackle the problems of illiteracy, primary health, poverty, unemployment, income and regional disparities. The public sector has played a catalytic role in these areas and will continue to do so in future. However, he questions the ability of the public sector to cope with the demands of the economy. Scores of sick units especially in the services, banking and transport sectors are a cause for serious concern. The public sector has also failed to

generate resources for development to the extent it was desired. The author argues that it is against this background that the demand for privatisation of the public sector undertakings has gained momentum. However, he cautions that in the context of the Indian economy, it is not desirable to go all-out for privatisation. Instead of this, the policy of exclusive reservation of areas for the public sector should be done away with.

P.S. Bami\textsuperscript{64} in his paper is of the opinion that the major objective of the Government in establishing PSUs in core industries was to prevent concentration of economic power in few units and to ensure optimum development of infrastructure for overall benefit of the country rather than for profit making. These objectives have been achieved by and large. However, now due to the need for rapid economic development and marketisation, it is necessary to look at other aspects of public enterprises such as efficiency in operation and supply. It has been found that the State Electricity Boards (SEBs) tend to emphasise social rather than economic or efficiency goals. While it is necessary that this aspect is not overlooked entirely from the point of view of rapid and successful development of the sector, it is equally essential that adequate returns are earned by the State Electricity

\textsuperscript{64} P.S. Bami (1991), "Performance of the Public Sector," in \textit{ibid.} pp.269-274.
Boards and the Central generating units for enabling fresh investments to improve the service of the sector to the economy and thus help in making Indian production processes competitive in the world market. The author is of the view that the public sector enterprises have slower response mechanisms due to their linkages with the political and bureaucratic systems of the country. The time is therefore, ripe for privatisation and increased private sector participation in the power sector.

R.C.Dutt\textsuperscript{65} in his paper emphasises the social role of public enterprises in developing economies. According to him both planning and public sectors are imperative for a developing economy endowed with limited capital resources and large and expanding demands. Market forces, in his opinion, will distort development in favour of the affluent. The paper commands the capability of the public sector to achieve all that the private sector can, while at the same time it ensures the direction of resources where these are best needed by the community. The paper points out that the recent developments in the Soviet Union and other East European countries have no relevance to India. Their systems, unlike India's, were inflexible, frequently blind to the induction of new technologies.

T.L. Sankar in his paper focuses on the State Level Public Enterprises (SLPEs) and highlights that in most discussions on public enterprises in India, this segment is ignored. According to him, there are eight hundred SLPEs which are locked with an investment of Rs. 46,000 crores and are accounting for fifty percent of the work force of all public enterprises. He is of the opinion that there has been a proliferation of SLPEs into areas which were not really intended for the sector. The author establishes statistically the dismal rates of return of SLPEs and cautions that the overall results conceal better results in some states and gloomier in others. He advocates restructuring of the public enterprises with reference to three factors: (a) the public purpose served, (b) resource mobilisation outside the state budget, and (c) financial profitability while identifying three hundred units requiring restructuring. He cautions that identification of units for privatisation would call for a substantial amount of effort and time.

B.S. Ghuman in his paper has examined the present state of affairs in public sector enterprises in Punjab. He is of the view that massive investments have been made in these enterprises over a period of time. The return on


investment is very low. The contribution of these public enterprises to the state exchequer in the form of dividend and interest is negligible. This state of affairs is attributable mainly to factors operating in the areas of organisation and management finance, project planning, technology, pricing, marketing and so on. The author underlines the need to adopt MOU system to grant operational autonomy and enforce accountability in state public enterprises in Punjab. The system of MOU has helped the Public sector enterprises in France, Korea and India (central Level) to improve their performance.

T.L.Sankar et al.68, in their paper points out that state level public enterprises form an important segment of the public enterprises in India. In view of the present debate about the place of public enterprises in the Indian economy, it is appropriate to rethink about the role and relevance of the state level public enterprises. The sector specific examination of activities of the state level public enterprises highlights that though they are expected to play a significant role in the year ahead, there is a need for going case by case in order to decide which enterprises can be retained in the state level public enterprises portfolio and what activities a particular state level public enterprises

enterprise should continue to perform. The application of the three dimensional matrix demonstrates that about two hundred enterprises most of which belong to the manufacturing trading and promotional state level public enterprises, score low on social purpose, profitability and mobilisation of resources from the financial institutions and qualify, thereby, for closure. However, the authors emphasize that it should always be kept in mind that enterprises in the promotional, financial and welfare sector categories will continue to serve important social objectives and as a consequence they cannot be closed down straight-away. Restructuring in respect of enterprises in these categories is necessary to find out what activities they should retain and what of their present business they should have off. The modalities for restructuring will have to be worked out very carefully to get to the essence of the problem.

Sanjeev K. Mahajan has evaluated the performance of public sector undertakings in Himachal Pradesh in general and Himachal Road Transport corporation in particular on the basis of operational performance, financial performance and passengers satisfaction. He is of the opinion that most of the public sector undertakings are incurring losses in

Himachal Pradesh. The rate of return has been negative during the period of study. The operational efficiency studied on the basis of selective indicators have shown mixed trend but there is much scope for its improvement through measures such as replacing of old buses which have completed their life, periodic inspection of vehicles, better road conditions and training to crew staff from time to time to make them aware of new technology. The financial health of the H.R.T.C studied on the basis of various financial ratios reveals that return on investment has been far from satisfactory. Net profit ratio was negative except two years. The current ratio was not satisfactory. Dept-equity ratio revealed increasing trend whereas proprietary ratio shows that the capital resources have not been utilised properly. Trends in costs has revealed that all costs have increased manifold. The analysis of passenger's opinion reveals that majority of respondents have expressed their dissatisfaction. The study recommends partial privatisation of passenger road transport in the state to bring efficiency.

The close examination of the above mentioned studies reveal that none of the study deals with the overall performance of State Level Public Undertakings in Haryana. Only Shashank Sharma (1980) and Vinit Bansal (1982-83) have studied Haryana Agro-Industries Corporation Ltd. (HAIC) and Haryana State Electricity Board (HSEB) respectively. In case of Haryana Agro-Industries Corporation's study, the span of
time covered is very short i.e. from 1976 to 1978. After this period, Haryana Agro-Industries Corporation and the economy of Haryana State have undergone many changes. Secondly, the study is limited in coverage and scope as it has used selected financial and physical aspects only. Similarly, Bansal has analysed the performance of Haryana State Electricity Board on the basis of physical aspects only. In the present study, the performance of public enterprises in general and Haryana Agro-Industries Corporation in particular has been attempted comprehensively. The various aspects of performance covered include organisational, financial, physical and customer's satisfaction. In addition, privatisation and non-privatisation reforms in tune with new economic policy have also been suggested.

**Objectives of the Study**

The main objectives of the study include:

(a) to analyse the growth and performance of public sector in Haryana;

(b) to examine the organisational structure and working of Haryana Agro-Industries Corporation (HAIC);

(c) to study the financial performance of HAIC;

(d) to analyse physical performance and level of satisfaction of customers towards the goods and services being provided by the Corporation; and

(e) to suggest privatisation and non-privatisation reforms
to improve the performance of HAIC.

**Hypotheses**

The following hypotheses have been tested during the course of study:-

1. Performance of public sector in Haryana is not satisfactory.
2. The organisational structure of Haryana Agro-Industries Corporation is not conducive for good performance.
3. The financial performance of Haryana Agro-Industries Corporation is not satisfactory.
4. The physical performance of Haryana Agro-Industries Corporation is poor.
5. Customers of the Corporation are not satisfied with the goods and services provided by the Corporation.

**Methodology**

The study has used both primary and secondary data. Secondary data have been obtained from the published documents of the Government of Haryana like Five Year Plans, Statistical Abstracts and Reports of C&AG, Haryana. The data relating to Haryana Agro Industries Corporation have been obtained from the Annual Reports of the Corporation, Files, Official documents and various brochures published by it.

Primary data regarding the study have been collected with the help of two different schedules. One schedule was
administered to the employees of the Corporation to know their satisfaction with respect to the overall functioning of the Corporation. The second schedule was administered to the customers of the Corporation in order to examine the level of their satisfaction towards the goods and services being provided by the Corporation. To obtain aforementioned information, random sampling method has been adopted. From the total population of 533 employees, a sample of 100 employees was taken by employing Tippett's Random tables. In case of customers, firstly all the sixteen Farmers Service Centres were categorised into dry belt and green belt Farmers Service Centres. Later on, one Centre from each belt was selected on random basis. Secondly, a sample of 48 customers was selected from Ambala Centre (green belt) and from Gurgaon Centre (dry belt), a sample of 42 customers was selected.

The growth of public sector in Haryana has been analysed in the light of objectives being pursued by the public enterprises (for details, see chapter III). In order to examine performance of public enterprises in the state overtime, a rate of growth of certain parameters is worked out.

The compound rate of growth is calculated by using the following exponentials relationship:

$$Y = AB^T$$
Where $Y$ is the variable for which compound rate of growth is calculated.

$T$ is the time.

Taking logarithm on both the sides

$$\log Y = \log A + BT \log B$$

By estimating this log linear equation with the help of least square method, the rate of growth is derived by the relation

$B = 1 + r$

Where $r$ is compound rate of growth.

Financial performance of HAIC has been examined with the help of capital structure, working capital, profit and loss account, internal resource generation and contribution to the state exchequer. Various financial ratios have also been calculated to know the financial health of the Corporation.

Physical performance of HAIC has been analysed on the basis of trading, manufacturing and servicing activities. In order to examine trading activities, the following indicators are used: (a) Growth of overall sales; (b) Growth of sales per employee; and (c) Cost of sales to turnover. Manufacturing activities have been analysed with the help of indicators such as: (a) Growth of value of production; (b) Value of production to capital employed; (c) Value of production to total assets; (d) Value of production to net worth; (e) Growth of production per employee; (f) The extent
of capacity utilisation; (g) Inventory to current assets; (h) Inventory to gross sales; and (i) Inventories in terms of number of months cost of production. The efficiency of servicing activities have been judged on the basis of the level of satisfaction of customer's about the quality of the products; availability of the products; prices; mode of payment; location of the showroom; basic public amenities such as drinking water, toilet, canteen, etc. available at the showroom; availability of the salesman; behaviour of the salesman; size, quality and packing material of the products; aftersale service and facility to express dissatisfaction/complaints at the showroom.

The period covered in the study ranges from 1979-80 to 1990-91 incase of HAIC and from 1984-85 to 1990-91 for public sector in Haryana as a whole. The selection of period is governed by availability of data.

Plan of study

The second chapter deals with evaluation criteria on the basis of which performance of public sector in general and Haryana Agro-Industries Corporation in particular has been evaluated during the course of this study.

In Chapter three, the performance of State Level Public Sector Undertakings in Haryana has been examined;
In the fourth chapter, the organisational structure and its working has been studied. The chapter has been divided into three sections. Section I deals with organisational structure of the Corporation. Personnel policy adopted by the Corporation and the level of satisfaction of employees towards the same figures in the section II. Section III lists the factors retarding the organisational performance of the Corporation.

In chapter five, financial performance of HAIC has been analysed. The chapter has been divided into three sections. Section I deals with the capital structure of the Corporation. Working capital analysis has been presented in section II. In section III, profit and loss position of the Corporation is presented. Appropriate financial ratios have been calculated and discussed in each section.

Chapter six contains discussion with regard to physical performance and the level of satisfaction of customers towards the goods and services being provided by the Corporation. The chapter has been divided into two parts. Part I analyses the physical performance of the Corporation on the basis of various trading and manufacturing activities. In order to examine the trading activities, the following indicators have been used: (a) Growth of overall sales; (b) Activity-wise sales turnover; (c) Growth of sales per employee (d) Cost of sales to turnover. Manufacturing
activities are analysed with the help of indicators such as:
(a) Growth of value of production; (b) Value of production to capital employed (c) Value of production to total assets; (d) Value of production to net worth; (e) Growth of production per employee; (f) The extent of capacity utilisation; (g) Inventory to current assets; (h) Inventory to gross sales and (i) Inventories in terms of number of months cost of production.

Part II contains the analysis of the physical performance on the basis of the level of satisfaction of customers towards the goods and services being provided by the Corporation. This part is further divided into two sections. Section I discusses the profile of Farmers Service Centres Ambala and Gurgaon of the Corporation. Section II deals with the analysis of results of the level of satisfaction of the customers about the quality of the products; availability of the products; prices; mode of payment; location of the showroom; basic public amenities available at the showroom; availability of the salesman, behaviour of the salesman; size, quality and packing materials of the products; after sales service and facility to express dissatisfaction/complaints at the showroom.

Chapter seven discusses the privatisation and non-privatisation reforms to improve the performance of HAIC. The chapter has been divided into three parts. Discussion with
regard to the concept, process and the format of Memorandum of Understanding (MOU) in general has been carried out in part I. The MOU, specifically for Haryana Agro-Industries Corporation, has also been discussed in this part. In addition, non-privatisation reforms in the form of MOU and restructuring of its viable and potentially viable units have also been discussed in part I. In part II, the scope for and modalities of disinvestment in the Corporation have been worked out. Part III includes summary and conclusion of the chapter.

Summary and conclusions of the study have been presented in chapter eight.