Chapter - 1

INTRODUCTORY

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1.1 INTRODUCTION

Public enterprises, during the last five decades played a vital role in shaping the Indian economy as they constituted core and essential sector of the national economy. They have been providing consumer goods and services and technical, financial and infrastructure facilities for growth of industry, agriculture, transport and communication. In fact, they took on right from the time of India’s Independence when Pandit Nehru made it clear that public enterprises had to be established by the Central and State Governments and that states should own and control key industries and services to tackle the country’s massive problems and accelerate its economic progress. As such, efforts have been made to ensure foundational and infrastructure support for heavy industry during the Five Year Plans.

No doubt, during the last five decades or so, through insistence on public sector, India become one of the top industrialised countries in the world. Yet, the way the public sector has grown, it has become a subject of criticism all over. Management inefficiencies in almost all spheres of public sector functioning constraint the Indian Government to give a fresh thought to the basic concept of public enterprises. India started the process of new economic policies in 1991, and the focus was on privatisation. Not only India but most of the developing countries have resorted to structural changes in the public sector in order to make them economically viable and useful for the economy.

Role of the public sector was traditionally connected with the building of infrastructure projects and branches of the economy. Later, public enterprises in developing countries were acknowledged as the torch bearer of advanced technology which could make up for the private sector’s inadequacy in mobilising
financial resources in organising research and development, and in utilising new materials and methods in production.¹

Today, there is hardly any country where the government does not actively participate in the establishment and management of economic and industrial enterprises, ranging from transport system, generation and distribution of power, coal, iron and other materials, banking and insurance to industrial enterprises like steel plants, fertilisers, chemicals, machine tools, aircraft manufacturing and locomotives.²

To refer to Hanson, extension of public enterprises in fields like power, transport, irrigation, fertilizer and financing accelerates economic development, Turkey stepped up its pace of economic development during post-war period by making heavy public investments in certain sectors of the economy. In addition, nationalization of existing private sector enterprises, either for better regulation of economic activity or for providing employment to labour force, has brought in public enterprises.³

Ordinarily, public enterprise stands for a concern owned and managed by the state or any other public authority. It also broadly refers the nationalised or socialised and institutions engaged either in production of goods or in supply of services.

A public enterprises may be thus, defined as an enterprise which may be (a) owned by the state or (b) managed by the state or (c) owned and managed by the state, public enterprises combine in them public accountability and business management for public ends. According to Prof. A. H. Hanson, “Public enterprise means state ownership and operation of industrial, agricultural financial and commercial undertakings.”⁴

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² Batra, G. S., Leading Issues in Public Enterprises, Anmol, New Delhi, 1993, p.3.
⁴ A. H. Hanson, op. cit., 1959, p. 115.
Public sector and public enterprises, thereof, have become a world-wide phenomenon today. A country might be following a capitalistic, communistic or socialistic or mixed ideology, the public sector is vital for both the developed and developing countries, it is primarily needed for the developing countries because of poor economic-matrix there. It is considered as a pace setter and catalyst in promoting the economic growth and uplifting the economy from the morass of existing, dismal state of affairs. The public sector has become so much instrumental in the growth of economic development that A. H. Hanson has gone to the extent of saying this: “Public enterprises without a plan can achieve something, a plan without public enterprise is likely to remain on paper.”

The State today, far from being merely a passive observer of the economic progress has emerged as an active participant in the economic and industrial fields. In fact, therefore, at present there is the hardly any sphere of human activity which is not in some way or the other controlled and regulated by the state. The concept of public sector become prominent after the Great Depression of 1930s. The advent of Keynesian Economics came as a severe blow to classical theory of markets and signalled the departure from the no-state-intervention to almost total takeover and command of the market by the state. Public enterprises, in one form or the other, came to exist in almost all the countries of the world. Although in the 1970s, Thatcherism in England paved the way for the re-emergence of market forces in resolving the economic problems.

State intervention in the economic or business activities is regarded an inescapable part of the obligations of government to redress economic imbalances, to safe-guard the interests and welfare of the community as a whole, to plan for an overall prosperity and to undertake and execute schemes and projects vital to needs of nation.

Today, the state is discharging these heavy responsibilities through the

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public enterprises, which cover a vast and varied range of industrial and commercial activities, such as mining and metallurgy, manufacturing of electrical goods, machine tools, chemical and fertilizers, building of ships, aircraft and locomotives, provision of air, sea and road transport, industrial financing, banking business and undertaking the business of life insurance and general insurance, etc. Consequently, public enterprises are considered to be a catallactic agent for attaining the cherished goal of a welfare state.

The need for public enterprises is more fundamental than merely producing the goods and supplying the services needed by the people. These enterprises have to support and supplement the efforts of the government in realising the national objectives as will. The presence of public sector may be advocated for three reasons:

(a) to gain control of the commanding heights of the economy,
(b) to promote critical development in terms of social gain or strategic values rather than primarily on considerations of profit, and
(c) to provide commercial surplus with which to finance further economic development.\(^7\)

But the debate today is on the area of the economy that the public sector enterprises should be exercised by Parliament and Government to ensure accountability without stifling initiatives or violating the canons of sound business management.

1.2 STATEMENT OF THE PROBLEM

The Government ownership and management of industries is not a new phenomenon in India. In fact, the tradition of having Public Enterprises in India – at least conceptually – is quite old. The researchers have revealed that during the reign of the Mauryas, alone with full freedom to private enterprise, a number of industries were being run directly by the state.\(^8\) Even as back as 300 B.C., Kautilya

\(^8\) M. A. Hakeem, Tryst with development, SCOPE Library, Delhi, p. 1.
in his Arthashastra, spoke of a ‘Public Sector’. There was a Lavanadhyaksa
incharge of the manufacture of salt and fixation of its price. The state was
supposed to keep as a state monopoly both mining and commerce in minerals, for
mines formed the source of the treasury and from the treasury came the power of
Government. Kautilya also attached much importance to state trading and
irrigation projects. T. Ganapati Shastri, regarding the presence of public sector, in
his famous book ‘The Arthashastra of Kautilya’, has also mentioned, “The
Arthashastra described a method of Government by which a king should rule for
the welfare of his millions of subjects, just as a learned householder, treading the
path of virtue, alert in the performance of his duties, ever cautious and dexterous
in preventing the treachery of his enemies, works so ably for the well-being of his
own family.”

The Mughals had state-owned Karkhanas which held monopoly for the
trading of specific articles. During the British regime in this country before 1947,
there was almost no public enterprises except in the field of utilities, like post and
communications, water-works, power plants and railways. A few provincial
governments like those in Madras, Bengal and the United Provinces did start a
couple of industries, but they were by and large demonstration units only. The
foreign government really neither followed an active industrial policy nor
undertook industrial enterprises willingly for the welfare of our people. Summing
up, Dr. Jagdish Prakash has stated, “Prior to attainment of independence, the role
of the public enterprises in India had quite limited, as the economic development
then was left to the efforts of private sector. The government took some interest in
certain areas only and that too when it was compelled to do so.”

In 1947, when the country became independent, there were various socio-
economic problems confronting the country which needed to be dealt within a
planned and systematic manner. India at that time was an agrarian economy with

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10 M. A. Hakeem, op. cit.
a weak industrial base, low level of savings, inadequate investment and lack of infrastructural facilities. There existed considerable inequalities in income and levels of employment, glaring regional imbalances in economic development and lack of trained manpower. As such, state’s intervention in all the sectors of the economy was inevitable since private sector neither had necessary resources, the managerial and scientific skill, nor the will to undertake risks associated with large-gestation investments.

Among the imperatives before the Government were the removal of poverty, equitable distribution of income, generation of employment opportunities, removal of regional imbalances, accelerated growth of agricultural and industrial production, better utilisation of natural resources and a wider ownership of economic power to prevent its concentration in a few hands. Given the type and range of problems faced by the country on economic, social and strategic fronts, it become a pragmatic compulsion to use the public sector as an instrument for self-reliant economic growth.

Having freed India from clutches of British rule, the National Government followed a Soviet Union Model of mixed economy for India’s economic development since inception of planned era in the country. Both public and private sectors were given due consideration for making contributions to Indian economy. However, in terms of policy perspective, the public sector was over weight and was, therefore, assigned greater role to play than its counterpart, i.e., private sector in strengthening the overall economy mainly because of certain strategic reasons. According to the article 39(b) and (c) of the Constitution of India, “the ownership and control of the material resources of the community are so distributed as best to subserve the common good and that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment.”

Viewing this, the public sector was entrusted with the following responsibilities:

1. To ensure rapid economic growth and industrialisation of the country and create necessary infrastructure for economic development;
2. To earn return on investment and thus generate resources for development;
3. To create employment opportunities;
4. To promote balanced regional development;
5. To assist the development of small scale and ancillary industries;
6. To promote import substitutions, save and earn foreign exchange for the economy; and
7. To promote redistribution of income and wealth.

Consequently, our successive Industrial Policy Resolutions and Five Year Plans emphasized the establishment of public sector enterprises along with other enterprises either in the private sector or co-operative sector. This paved the way of mixed economy. The Industrial Policy Resolution of 1948 was the first formal official pronouncement of the government defining the role of the state in a true form. It states, "There can be no doubt that the State must play a progressively active role in the development of industries, but ability to achieve the main objective should determine the immediate extent of State responsibility and the limits to private enterprise."\(^\text{12}\) It was decided that manufacture of arms and ammunition, the production and control of atomic energy and the ownership and management of railway transport should be the exclusive monopoly of the Central Government. In addition, the State will be responsible for the establishment of new undertakings in the field of coal, iron and steel, aircraft manufacture, ship-building, manufacture of telephone, telegraph and wireless (apparatus excluding radio-receiving sets) and mineral oils.\(^\text{13}\)

The Industrial Policy Resolution of 1956 gave further push to the public sector. It states, "The adoption of socialistic pattern of society as the national objective, as well as the need for planned and rapid development require that all industries of basic and strategic importance, or in the nature of public utility

\(^{12}\) Industrial Policy resolution. Government of India, New Delhi, 6\(^{th}\) April, 1948, Para 3.
\(^{13}\) Ibid, Para...
services, should be in the public sector. Other industries which are essential and require investment on a large scale which only the State in present circumstances could provide, have also to be in the public sector.\[14\]


As a sequel, the central public sector enterprises grew from the lowest five units involving an investment of Rs. 29 crores in the first five year plan to as many as 237 units with an investment of Rs. 357849 crores up to the end of March 2005. Out of these 227 operating PSEs, as many as 143 were profit making enterprise. Profit of profit making enterprises totalled Rs. 74431.86 crores. As many as 73 enterprises made losses totalling Rs. 9002.75 crores. There was one enterprise, which made neither profit nor loss. Overall rate of return on capital employed (net profit to capital employed) in PSEs was of the order of only 2.8 percent in 1985-86 which increased to 11.46 percent in 2004-05. The contribution of public sector in India’s total industrial production is also significant. Similarly, the generation of gross internal resources by operating enterprises which stood at Rs. 19992 crores in 1994-95 increased to Rs. 83851 crores in 2004-05. Likewise, the contribution to central exchequer increased to Rs. 81867.07 crores in 2004-05. The public sector enterprises have shown constant growth in turn over/operating income except for the year 2001-02. It has increased from Rs. 133906 crores in 1991-92 to Rs. 700862 crores during 2004-05 registering an increase of 423 percent during the same period. Employment in public sector enterprises have experienced a decrease during the reforms periods mainly due to the implementation of Voluntary Retirement Scheme. However, average emoluments have increased. But the cumulative picture of public sector enterprises
performance continues to be bleak. Central public sector enterprises have declared a dividend of Rs. 20713 crores in 2004-05 as against Rs. 15288 crores during 2003-04, an increase of 35.48 percent. The dividend payout ratio has gone up to 31.66 percent as against 28.80 percent in the previous year. Profit before depreciation, interest and tax has increased from Rs. 40161 crores in 1995-96 to Rs. 142606 crores in 2004-05 thereby registering an increase of 255.09%. Profit before interest and tax during this period has increased from Rs. 27585 crores to Rs. 108491. The increase works out to 293.27 percent. Profit before interest and tax to capital employed, i.e., return on investment has gone up from 15.9 percent to 21.49 percent. Net profit during this period has increased from Rs. 9574 crores to Rs. 65429 crores registering an increase of 583.40 percent.

Therefore, the facts and figures mentioned above pose an interesting question. It is necessary to continue such activities in which public sector enterprises are not competitive. While the government has not till date, tried to answer this philosophical question obviously because it may raise the hackles of socialists and communists, it has continued to reduce budgetary support to loss making units on the one hand, and tried to disinvest a small percentage of its shares in profit making units. The strategy apparently will result in loss making units being liquidated in course of time, while the Government would profit from disinvesting its shares in profit making units in order to bridge budgetary deficit. It is against this backdrop that the present study has been taken up.

1.3 NEED AND SCOPE OF THE STUDY

Since the dawn of the independence the Public Sector in India was given greater role to play towards economic and industrial development, technological advancement and self-reliant growth of the country. It was to achieve commanding heights of the economy as a model employer. But over a period of time, PSEs have exhibited a number of problems such as low productivity, low profitability, poor project management skills, overmanning, lack of technology
upgradation, inadequate attention to research and development and low priority to human resource development requirements.

During the eighties, the disillusionment witnessed in the socialist economies accelerated the process of disenchantment with the public sector in the mixed capitalist enterprise systems in the world. The wave of economic reforms under perestroika started in the USSR swept the economies of Eastern Europe. Although Communist China suppressed the opposition move to introduce democracy in its polity, it has itself introduced economic reforms since it was felt that public sector did not optimize efficiency and productivity of capital. The social economies were operating in a system of monopolistic control and acted on cost plus pricing policies suggested by the plant managers. The virtual absence of market did not provide a competitive environment to develop a system of efficiency pricing. Quite a large number of enterprises in mixed capitalist economies worked under conditions of monopoly and thus were the victims of excessive bureaucratisation and centralization in decision making, resulting in inordinate delays which also led to escalation of costs.

In India, it was in middle of seventies, disenchantment with the public sector had started, but the voices of protest were feeble and were sporadic and unarticulated. The failure of the public sector to fulfil the role assigned to it resulted in the protest becoming louder and more articulate. Although even in the beginning of eighties, the opening of certain areas hitherto reserved for public sector was undertaken, but the government was still hesitant to make a clear statement. The first clear pronouncement on the public sector which outlined the change in policy was made by Prime Minister Rajiv Gandhi in his first broadcast to the Nation in 1984 when he said: “The public sector has spread into too many areas where it should not be. We will be developing our public sector to undertake jobs that the private sector can not do. But we will be opening up more to private sector so that it can expand and the economy can grow more freely.” It

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is in this backdrop of liberalization throughout the world the new economic reforms were initiated in India in 1991.

The downfall of PSEs nose-dived its climax in 1990-91, the net profit (after tax) considerably reduced to Rs. 2368 crores from Rs. 3789 crores in 1989-90. The people faith in the public sector started deteriorating. The Indian economy suffered from a great setback and passed through the most difficult financial crisis in 1990-91. The balance of payment experienced a quite crisis with an absolute negative value of US $ 9437 million, foreign exchange reserves nose-dived to the lowest level of US$2236 million, which subsequently reduced to US$ 896 million on 16th January 1991. The revenue deficit jumped, from Rs. 11914 crores in 1989-90 to Rs. 18562 crores in 1990-91, which was 3.5 percent of GDP. Similarly, the fiscal deficit increased from Rs. 35632 crores in 1989-90 to Rs. 44632 crores in 1990-91, which was 8.3 percent of GDP. The total external debt amounted to 30.5 percent of GDP and 454.47 of total exports in 1990-91. Total debt service amounted to 32.3 percent of current receipts in 1990-91. Arising inflation reached a peak level of 16.17% in August, 1990-91. The total expenditure of the Central Government was noticed to be the highest during 1990-91, as witnessed by its increase from 16.5 percent in 1980-81 to 19.6 percent in 1990-91. Several other factors like growing number of sick enterprises, low rate of return from public as well as private investments. Widening of inequitable distribution of national income, ownership of production means in limited hand growing unemployment, stagnation in agriculture and poor performance of industrial sector were also responsible for deteriorating and dilapidated condition of India’s economy. Thus, the Indian economy lost the credibility in the international market. As former Finance Minister Dr. Manmohan Singh remarked, “The Government of Rao inherited an economy in deep crisis. It was virtually in the grip of critical BOP crisis and stagflation. To overcome the above crisis, the Government announced New Economic Policy on July 4, 1991. To face the competition in new business environment and to make the economy more vibrant and more dynamic, the Government also announced new Industrial Policy on July 24, 1991.”
As per the announcement in the Industrial Policy statement and also in the Budget speech of July 1991, in order to raise resources, encourage wider public participation and promote greater accountability, the Government equity in selected public enterprises was to be offered to mutual funds, financial institutions, workers and general public. It is clear that Industrial Policy, 1991, was a corner stone regarding scope, organisation, working and reforms of public sector. The main dimensions of the new approach were:

(i) Public enterprises were to focus on strategic, high tech and essential infrastructure.

(ii) Sick Public enterprises to be referred to the Board of Industrial and Financial Reconstruction (BIFR), which would suggest remedies for their rehabilitation or recommend closure.

(iii) A part of public equity to be offered to mutual funds financial institutions, general public and employees.

(iv) Public enterprise boards to be made more professional and given greater powers.

(v) Performance improvement to be secured through the Memorandum of Understanding.

(vi) The government would ensure that PEs were run on business lines as envisaged in the Industrial Policy Resolution of 1956.

The Government scaled down the budgetary support to PSUs and they were asked to maintain financial discipline in their operation and generate their own resources for diversification or expansion by restructuring their organisational and financial management including improvement in efficiency of men and machines. For this purpose, the government allowed limited disinvestment of a part of equity of some of the CPSUs in 1991-92 to the financial institutions, mutual funds and the employees in order to raise non-inflationary finance for development. The Government also decided to give functional and financial autonomy to the CPSUs and make them accountable for their performance.
The Government has also brought sick PSEs under the amended Sick Industrial Companies Act, so as to refer them BIFR for restructuring or closure as the case may be. The Government declared its policy of moderating tax rates, widening the tax base and improving compliance. As per Economic Survey, 1997-98, almost PSEs (Navratnas) have been granted enhanced autonomy. Now these PSEs enjoy the freedom to incur capital expenditure, enter into joint ventures, set up subsidiaries and technological and strategic alliance offices abroad, raise funds from domestic and international capital markets and enjoy greater operational and managerial autonomy. Similarly, the Government has also granted more operational, financial and managerial autonomy to 97 other profit making PSEs known as Mini Navratnas for making them more efficient and competitive. To make the PSEs perform better, the Government has granted greater functional and financial autonomy, by withdrawing 696 guidelines earlier issued for their management. Authority has also made PSEs completely accountable through the signing of MOUs. But contrary to these reforms and expectations, there are a number of PSEs which have suffered huge losses continuously and, thus, leaving no scope for generating sufficient internal funds and surpluses. A review of the working of PSEs has revealed that either the profits in them have been deplorably low or that they have been making losses. Many reports on the working of public sector projects have been pointed out that many of projects took longer time to complete than was initially envisaged. Not only that, the cost of projects was also revised upwards. PSEs are charged with over capitalisation and manpower is also in excess of actual requirement. The pricing policies of the PSEs are not guided solely by the profit maximisation principle, but under the regulation and control of the government. During 2004-05, 98 units or 58% of all manufacturing/producing units had recorded capacity utilisation of more than 75%. On the other hand, 28 (17%) PSEs operated in the capacity utilisation range of 50 to 75%, and 42 (25%) functioned below 50% utilisation of rated capacity. The poor performance of PSEs is ascribed to faulty controls, unnecessary greater political influence, financial and otherwise, exercises over them. Inefficiency in managing financial
affairs is also one of the factors responsible for such position of these undertakings.

Thus, the PSEs have invited a lot of criticism on financial front, the backbone of any business enterprise. This has necessitated the importance of such a study which can highlight the shortcomings in raising and using the necessary funds by the PSEs and suggest effective and necessary steps to remove the same. The present study is, therefore, an attempt to bridge this gap. The main focus of this study is to examine the efficiency, profitability and performance of PSEs during the reforms period and to suggest suitable and effective measures to improve and strengthen the same.

1.4 REVIEW OF LITERATURE

The economist, financial analysts and other concerned continue to express increasing interest in the affairs of the public sector undertakings. Such concern is evoked among them primarily because of some awareness about the importance of the investment of money made in public sector undertakings in India. There are considerable differences between the central public sector enterprises (CPEs) and state level public enterprises (SLPEs) in terms of characteristics and performance. The performance of centrally sponsored undertakings has often been subject of much concern. But the working of the comparatively very large number of units promoted and administered by various state government has usually remained a neglected lot. Although many research studies and symposia have been conducted from time to time to go into the rationale, growth and working the public sector enterprises, very little serious effort has been put in to objective assessment of the role, structure and financing of the state level public enterprises. Even their actual relevance as well as contribution in the development of the states has not been adequately probed.

Review of literature strengthens the hypothesis. It is a major part of methodological strategy. In the development of every field of a study, a stage is reached when it becomes indispensable to take stock the whole work done in the
part. To probe and research the problem in a better way, it is necessary to review the existing relevant literature. Because of large investment made in public sector in India, there has been a great deal of interest in their working and performance and numerous studies have been carried out on different aspects of working of public sector by experts, researchers and academicians. It is not possible to mention here all those studies but a brief survey of main studies have been made in this section.

**Satyanarayana** (1974), in his research study entitled “Accumulated Deficits of Public Enterprises”\(^{16}\) analyses the factors like cost of sales, inventories and capacity utilisation affecting the profitability of public enterprises. He suggested that there was need for making concerted efforts for improving the financial/operational performance of public enterprises by adaptation of modern techniques of financial/operational management.

**Chakravarty** (1979) in his research study “Restructuring the Debt/Equity Ratio of Public Enterprises”\(^{17}\) examined the extent of financial resources required by public enterprises, financing patterns, source of financing and cost of funds. He noted that public enterprises at the centre and in the state exaggerated their financial needs, did not pay requisite attention to evolving enterprise specific debt-equity ratio and were unmindful of diversifying the resources base. This study hinted at the vast scope which state enterprises could exploit by way of tapping financial markets. A case for granting financial autonomy was also made in the study.

**Bhatia** (1983), in “Review of Researches on Profitability of Public Enterprises”\(^{18}\) reviewed the performance of the public sector. The study also analysed the performance patterns of public enterprises and highlighted the major bottle-necks leading to poor performance.

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A system approach for the evaluation of performance of the performance of public sector was suggested by Mascarenhas (1983)\textsuperscript{19}. He felt that studies could be organised in the following areas for evaluating the performance of public enterprises, viz. (i) whether commercial profitability could be taken as criterion for evaluating the performance of public enterprise and (ii) whether an integrated cost benefit analysis model could be developed covering production, profitability, surplus generation and social objectives, etc. for evaluating the performance of public enterprises.

Dholakia (1983) in his study entitled “Performance Evaluation of Public Enterprise”\textsuperscript{20} examined the issues relating to the alternative criteria for performance evaluation in the context of the basic objectives of public enterprises and the specific data requirements to facilitate the application of the criteria for financial viability, factor productivity and socio- economic benefits for evaluating the performance of public enterprises. He made a case for the development of appropriate models for a comprehensive evaluation of the performance of public enterprises.

Chattopadhyay (1983) in “Survey of researches on Financial Management in Public Enterprises”\textsuperscript{21}, has observed that most of the problems relating to poor performance of public enterprises arise owing to improper financial management policies and their faulty execution. He has suggested that proper working capital management, cash flow analysis and project cost analysis, etc. are the strategic areas in the field of financial management of public enterprises.

Mishra (1983) in “Review of Researches on Pricing in Public Enterprises”\textsuperscript{22}, revealed that the pricing policies in public enterprises helped in achieving the


physical, financial, economic and distributional objectives of the mixed economy. He observed that pricing policies in public enterprises in India were not uniform. He suggested that the pricing policies in public enterprises should ensure the commercial viability of products of public enterprises.

**Gupta (1984)**, in his research work entitled, “Economics and Management of Public Enterprises”, dealt with several aspects of performance of public enterprises. He briefly describes the important factors which have contributed towards poor performance of the public enterprises which can be ascribed to over-capitalisation, large overhead expenditure, over-employment, delay in construction of project, absence of trained manpower, below rated capacity and absence of sound pricing policy. He suggests that measures to improve the performance of public enterprise are: employing cost accounting techniques removing external influences, fixing of norms of efficiency, sound pricing, granting financial autonomy to public enterprises and optimum utilisation of capacity.

**Hopwood and Tomkins (1985)** in their research work “Issues in Public Sector Accounting”, have stated that the period of major economic constraints has put pressure on existing instruments of financial management, and the resulting resource constraints have placed a premium on the efficient use of public sector resources, both actual and perspective. He emphasizes that demands have also been made for improvements in the financial accountability of public enterprises. He has suggested that there is a need for maintaining a balance between autonomy and accountability in order to improve the commercial viability of public enterprises.

**Choyal (1986)** in “Financial Management of State Enterprises” analysed the working of state corporations in terms of their financial appraisal. The

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working of state corporations of Rajasthan, Haryana, Madhya Pradesh, Andhra Pradesh and Orissa has been probed for the period 1975 to 1982. The study comes to the conclusion that all the corporation became self-supporting by generating their own funds for self-expansion and growth. He recommended that financial management of state level public enterprises needs to be given due importance.

Dr. B. Rajaiah conducted a study, namely “Public Enterprises : A Study in Profitability”\textsuperscript{26} in 1987. In that, he has assessed the objectives, the prevailing conditions, finances and the pricing policy of public sector enterprises. The return on investment has been taken as the chief criterion, by the author, for measuring the progress of selected public sector enterprises and has concluded that enterprises have failed to generate satisfactory surplus. He has held the unsound financial structure, faulty pricing policy and lack of profit planning responsible for the poor performance of the enterprises.

Mishra (1988), in his study entitled “Performance Evaluation of Public Enterprises in India”\textsuperscript{27}, intensively examined the physical/financial performance of public enterprises. His study demonstrates that the public enterprises have fallen behind the expectations and there is a strong school of thought ascribing the poor performance of the public enterprises largely to the internal factors. This study held lack of accountability over investment, wrong financing and dividend decisions responsible for poor public enterprise performance.

Another study entitled “Working Capital Management of State Enterprises in India”\textsuperscript{28} was carried out by Dr. Ravi K. Jain in 1988. The study throws light on a number of facts of working capital management in the state enterprises in Rajasthan. The author has examined the problems of working capital as a whole and component-wise too.

Dr. Indra Kumar and Dr. Biji James undertook a study entitled “Public Sector Enterprises in India” in 1990. In that, they have accepted the profitability test for analysing the performance of state owned enterprises in Kerala. Judging the performance of public sector enterprises on the extent of their surplus and contributions made by them to the state government has been found to be most suitable.

Ghuman (1990), in his study “Public Enterprise - The Punjab Experience”, looked into the working of the state level public enterprises in Punjab by using financial data from 1977-78 to 1984-85 to support his observations he has pointed out the fact that the performance of public enterprises in the state is dismal and this sector is hardly contributing anything to the state exchequer. The reasons for losses put forward by him are lack of clear-cut policy guidelines and an unsound organisational and managerial set-up of these undertakings.

Mathur and Lodha (1991) “An Appraisal of MOU System for Public Enterprises”, opines that the introduction of the Memorandum of Understanding (MOU) system has emerged as an alternative to privatisation. The Memorandum of Understanding system is an important technique which could prove to be panacea for improving the financial and operating performances of state enterprises. Memorandum of Understanding system will also act as an alternative to privatisation of state enterprises.

A study undertaken by K. Balan entitled “Management of Public Sector” in 1992 present a series of study papers of the author on various aspects of public enterprises management. It also includes a chapter on memorandum of Understanding (MOU) contributed by the internationally renowned and recognised management expert Dr. Prajapati Trivedi of IIM, Calcutta. The book

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deals with the current problems and has great relevance to the day-to-day working of public enterprises, both central and state level, most of which are caught in the vicious circle of sickness or financial crisis.

Batra (1992), in his published research work titled “Leading Issue in Public Enterprises” delved into the various instruments of ensuring control over state enterprises with special reference to public enterprises in Punjab. He suggested that a great deal of financial autonomy be given for improving the financial/operating performance of the state enterprises. Memorandum of Understanding (MOU) system should be introduced in state level public enterprises so as to achieve their basic objectives and improving their financial viability.

Shastry and Dhameja (1993) in their work on “Performance Evaluation of Public Enterprises” emphasize that the diversity of perceptions of different Government agencies and the enterprise management and goals and objectives lead to confusion and non-achievement of organisational goals. They observe that there is diversity even in the methodology of specifying performance evaluation criteria and their weights, particularly its non-quantitative aspects. The perennial problem is of ensuring responsibility, its quantification and inclusion in the system of performance evaluation. Hence the suitable performance evaluation criteria need to be evolved in this respect.

A study entitled “Public Sector Management : Performance and Efficiency” was undertaken by Ratnakar Gedam in 1995. The study aims at measurement of the performance and evaluation of methodologies as applied to public sector enterprises. It suggests practical solutions also, relevant to Indian context.

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Sharma (1995), in his paper entitled “Indian Public Sector in the Changing Scenario”\textsuperscript{36}, stressed that a number of problems including allocation of resources, delays in filling up of top-level posts, tight regulations and procedure for investment, and restrictions on functional autonomy of the public sector undertakings in respect of labour and wage policy, etc. had for long been traced as serious constraints on public sector undertakings operational efficiency.

A few other studies related to Central Public Sector Enterprises have also been conducted by the researchers. For example, a study was carried out by Poonam Verma in 1995 under the title “Personal Management Systems and Their Impact on Performance of Executives in Selected Public Enterprises”\textsuperscript{37}. This study is confined to personal systems and procedures established at the corporate level affecting the executives above the level of supervisors. The thrust is to have a detailed analytical look at personnel systems and procedures for identifying such attributes which contribute to high performance.

Another study entitled “Privatisation or Public Regulation – A Managerial Perspective”\textsuperscript{38} was conducted by Simrit Kaur in 1997. The study, besides assessing the performance of public sector in financial terms (as has been normally done) also assesses its significance in terms of initiating the process of economic development and diversification of the industrial structures of the economy via its linkage effects with rest of the economy. An attempt has been made to throw light on how the significance of the various key factors has changed over time.

Prof. K. Rajeshwar Rao undertook a study named “Project Planning in Public Enterprises in India”\textsuperscript{39} in 1998. It introduces various intricacies in project management of public enterprises. The author has made an attempt to disclose

the prevailing practices in public enterprises regarding project management with
the identification of loopholes in them. Also, a suitable model has been suggested
at each stage. Five case studies from four states of Andhra Pradesh, Bihar,
Rajasthan and Haryana have been taken to give a practical exposure to the issue
raised here.

These studies undoubtedly, provide an odyssey of professional learning
with many contours including relearning. Without these studies, it would not
have been possible to come across the various aspects of the public sector
enterprises and have an in-depth view of them and also the scope and
methodology for further research. The survey of the existing literature indicates
that no systematic, specific and scientific study has been carried out earlier on this
subject by taking into account all the relevant issues concerning policy, strategy
and programmes of public sector enterprises and their impact on its overall
performance and prospects. The present study entitled as “An Empirical Study of
the Efficiency, Profitability and Financial Performance of Central Public Sector
Enterprises in India” is therefore, a humble attempt to bridge this gap.

1.5 OBJECTIVES OF THE STUDY

The main objectives of the present study are as follows:

1. To study the history of economic reforms applicable to central
   public sector enterprises, especially those brought under
   enforcement since 1991.

2. To study and analyse the growth, efficiency, profitability and
   performance of central PSEs during the reforms period in India.

3. The study and analyse the labour management relations in PSEs
   especially during the reforms period.

4. To analyse sickness, revival and restructuring in PSEs.

5. To study and analyse the human resource development in PSEs.

6. To identify the strength and weaknesses of PSEs and to explore the
   better possibilities for making their working and performance more
   effective, efficient and viable.
1.6 HYPOTHESIS OF THE STUDY

The hypothesis is a necessary link between theory and investigation, which leads to the discovery of additions of knowledge. The hypothesis, which were observed and tested are as follows:

1. Economic reforms have provided managerial, functional and financial autonomy to PSEs.
2. Economic reforms have boosted rate of return on capital employed.
3. Economic reforms have not been helpful in increasing employment opportunities.
4. Economic reforms have resulted in a shift from labour to capital intensive technology.
5. Economic reforms have not been helpful in making the relations cordial between the labourers and management.
6. Economic reforms have brought about an overall improvement in the working and performance of PSEs.

1.7 LIMITATIONS OF THE STUDY

Despite all efforts to make the study more realistic, research-oriented, scientific and devoid of any shortcomings, due to certain factors beyond control of present researchers, the present study suffers from the following limitations:

1. Since secondary data has been collected from more than one sources, there may be slight discrepancies between one source and another one the variable.
2. Owing to lack of consistency in definition of different concepts and the coverage of data, data collected and used in the study are not foolproof. A number of loop holes are there.
3. The definition of different concepts has changed over time and quite naturally the coverage has changed. These changes have made data inconsistent. But with the help of various statistical measures and tools, this limitation has been made good.
While computing the percentages and averages, the figures have been approximated, and as such the totals at times may not exactly tally.

Furthermore, the present study takes into account the period from 1999-00 to 2004-05. A period of 14 years has been taken only to increase the validity of the conclusions drawn. Impact of economic reforms on the efficiency, profitability and financial performance of certain public sector enterprises in India has been explained in the present study. However, as we take into account such a long period for a developing country like India, where changes in economic scenes and activities have come thick and fast, the choice of determinants or different components becomes very difficult. Over a comparatively longer period of time, the determinants and their nature change and this change their explanatory power. This kind of change questions the reliability of the value of coefficients to different determinants. This is why we say that sign of the coefficient in econometric analysis at times becomes more important than the value of coefficients.