Chapter 1

Introduction

1.1 Definition of Disinvestment

The term ‘Disinvestment’ is the opposite of the term ‘Investment’. Investment is acquisition of earning asset with the help of money. For example if bonds are purchased or shares of companies are purchased by spending money it is known as investment. In the case of investment money is converted into earning asset to earn income. On the other hand in the case of disinvestment an earning asset is converted into liquid cash. Here we shall use the term disinvestment in a special sense. By disinvestment we mean the sale of shares of public sector undertakings by the government. The shares of government companies held by the government are earning assets at the disposal of the government. If these shares are sold to get cash, then earning assets are converted into cash. So it is referred to as disinvestment.

Difference between disinvestment and privatisation: Before we proceed further let us clear one semantic problem. There is a difference between disinvestment and privatization. Privatization implies a change in ownership resulting in a change in management. But disinvestment need not always imply change in management. Disinvestment is actually dilution of the stake of the government in a public enterprise. If the dilution is less than 50 percent the government retains management even though disinvestment takes place. It is not privatized. But if the dilution is more than 50 percent there is transfer of ownership and management. It will be called privatization. Thus disinvestment is wider than privatization. Privatization implies disinvestment but disinvestment does not necessarily imply privatization. Only when disinvestment goes beyond 51 percent it implies privatization. The extent of dilution of the government’s stake is determined as part of the policy of disinvestment.

Before considering disinvestment let us first consider, in brief, the role of public sector in Indian economy. This is necessary in order to understand the perspective in which disinvestment decision has been considered by the government.
1.2 Public Sector in India

After independence when economic planning was introduced India adopted the mixed economic system. The main feature of the mixed economic system is the co-existence of public sector and private sector. The Industrial Policy Resolutions of 1948 and 1956 demarcated the areas of operations of public sector and private sector. There were several objectives for building up the public sector. The objectives range from building infrastructure for economic development to generating investable resources for development by earning suitable returns. The motivation for expanding the public sector extends from the theory of ‘commanding heights’ to the provision of consumption goods at subsidised rates. Eventually public sector enterprises are now spread over from coal, steel and oil at one end to hotel and bread making at the other. It was earlier thought that by the progressive expansion of the public sector, the country would be able to move towards the socialistic pattern of society which was sought to be achieved as a goal.

1.2.1 Change in Government Policy towards Public Sector

There was a radical change in government’s policy towards the public sector in 1991 when the new industrial policy was adopted. In the new industrial policy of 1991 the role of public sector has been reduced. In the industrial policy of 1956, seventeen industries were reserved exclusively for the public sector. Moreover, there were twelve other industries which were to be progressively state owned. But in the industrial policy of 1991 only eight industries have been reserved for the public sector. These eight industries include defence production, atomic energy, coal and lignite, mineral oils, iron ore, manganese, gold and diamond, atomic minerals and railways. It has also been stated that if need arises private sector units may also be permitted to enter these industries. Thus in the new industrial policy there is no such thing as the exclusive preserve of the public sector. In the new policy it has been stated that the government will run the public sector on sound commercial principles. Chronically sick public sector units will be referred to Board for Industrial and Financial Re-construction (BIFR) for examining their viability. The unviable public sector units will be closed down. A social security net will be created for the rehabilitation of the workers working in the affected units. Another important feature
of the new policy on public sector is disinvestment of some selected public sector units. It has been decided that 20% of the shares of selected profit making public sector units will be sold to financial institutions, mutual funds etc. These institutions will hold the shares for a specified period of time after which they will be permitted to sell the shares in the share market. In the new policy it is also stated that the government will provide more autonomy to public sector units. The government will not interfere in the day to day functioning of the public sector units. Instead these units will be controlled by the government through memorandum of understanding (MOU) reached between these units and the government.

1.2.2 Performance of Public Sector

In this context the performance of public sector units in India can be considered. The performance of public sector units can be judged by several efficiency criteria. However, the financial performance assumes importance because one of the objectives of creating public sector enterprises was to generate investable resources for development by earning adequate returns. Financial performance of public sector units is mixed. In 2001-02, 119 profit making enterprises earned a total net profit of about Rs. 36432 crore and 109 loss making units incurred a loss of Rs. 10387 crore. Thus in 2001-02 total net profit earned by 230 central public sector units was Rs. 26045 crore. A very interesting point about the financial performance of central public sector units is that the major part of the profits was contributed by the petroleum sector enterprises. Thus in 2001-02 when the net profit after tax came to Rs. 26045 crore, the share of the petroleum sector enterprises was Rs 12714 crore that is 49%. The profit of the public sector enterprises would look less impressive if the oil sector is excluded. The rate of return on capital employed (defined as the ratio of net profit to capital employed) in 2001-02 was 6.7%. It should be noted that the capital employed in central public sector enterprises is generally raised by way of long term loans from the market and from financial institutions at a much higher rate of interest, Accordingly the rate of return on capital employed is pitiable low.

Many will argue that it is not wise to judge a public sector undertaking by its financial performance because such enterprises are not always guided by the profit motive. Rather they are guided by broader socio-economic considerations. If
necessary, a public enterprise can operate even if it is losing, the losses being met from the government budget.

Apart from financial performance one can judge the public sector enterprises in terms of technical efficiency allocative efficiency and dynamic efficiency. Technical efficiency is related to input-output ratio or productivity of inputs. Allocative efficiency is related to the correction of market failure leading to better allocation of resources than what will be decided by the price mechanism. Dynamic efficiency relates to innovations and technological development. Even in relation to these criteria, the results in relation to public enterprises are mixed.

Current profit and/or current loss need not necessarily be the criterion appropriate for disinvestment. Merely because a unit is profitable, it does not qualify to continue in the public sector unless it serves a social purpose. Loss making units need to be excluded from disinvestment if there are buyers who can make it profitable.

1.3  Issues Related to Disinvestment

Before proceeding further let us first consider some issues relating to disinvestment. These issues are: why disinvestment, how much disinvestment, how disinvestment, etc. Let us consider these issues one by one.

1.3.1  Why Disinvestment?

There are two major reasons offered by the government for disinvestment. One is to provide fiscal support and the other is to improve the efficiency of the enterprise. The fiscal support argument runs as follows: Government’s resources are limited. These resources should be devoted to areas of social priority such as basic health, family welfare, primary education and social and economic infrastructure. More resources can be devoted to these priority areas by releasing resources locked up in nonstrategic public sector enterprises. The demands on the governments both at the centre and in the states are increasing. There is need to expand the activities of the state in priority areas. It is, therefore, legitimate that a part of the additional resources needed for supporting these activities come out of the sale of shares built up earlier by the government out of its resources.
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The second reason for disinvestment is that it will improve the efficiency of working of the enterprise. If the extent of disinvestment is such that the enterprise is privatized and management of the enterprise is taken over by the private sector it will be free from the control of the government and will be able to function more efficiently. It is here taken for granted that efficiency is higher for a private sector than for a public sector unit. Even if the extent of disinvestment is less than 50 percent so that the government retains control of the unit, the induction of private ownership can have a salutary effect on the functioning of an enterprise. It increases the accountability of management. The share-holders have expectations about returns on their investments and their expectations are to be fulfilled. This will compel the enterprise to run more efficiently and earn more profits. Flexibility in ownership structure can, in effect, impart efficiency. In fact, the induction of the public into the ownership structure can also create conditions in which there could be greater autonomy for the functioning of the public sector enterprises. Disinvestment can be regarded as a tool for enhancing economic efficiency.

1.3.2 How much Disinvestment?

The second question with respect to disinvestment is related to the extent of disinvestment to be made in an enterprise. Obviously the level of disinvestment in an enterprise in any year should be derived from the target level of government ownership in that enterprise over the medium term. The target levels of ownership could be 26 percent to ensure limited control over special resolution brought in, in the general body meetings of the enterprise, 51 percent to have effective control and 100 percent for full ownership. The target level of disinvestment should be derived from the desirable level of public ownership in a unit. The Rangarajan Committee (1993) emphasised the need for substantial disinvestment. It stated that disinvestment could be up to 49 percent for industries explicitly reserved for the public sector. It recommended that in exceptional cases, such as the enterprises which had a dominant market share or where separate identity had to be maintained for strategic reason, the target public ownership level could be kept at 26 percent. In all other cases, it recommended 100 percent disinvestment of government stakes. In 1999 the government classified public sector enterprises into strategic and non strategic units for the purpose of disinvestment. Strategic public sector enterprises would be those in
the areas of defence production, atomic energy and railway transport. All other public sector enterprises were to be considered non strategic. For non strategic public sector undertakings, it was decided that the reduction of government’s stake to 26 percent would not be automatic and the manner and pace of doing so would be worked out in case to case basis.

1.3.3 How Disinvestment?

The third question is what should be the process to be adopted for disinvestment? For this two things are required: first is how to find the valuation of shares and the second is to find the modalities to be adopted for sale. If all the shares of a public sector undertakings are held by the government such shares are not sold in the share market. These shares do not have market prices. Then how to determine the values of such shares? There are three methods to determine the values of shares:

(i) Net asset value method.
(ii) Profit earning capacity value method, and
(iii) Discounted cash flow method.

Different valuation methods give different results. It has also to be noted that while the different valuation methods can provide a benchmark for the price, the price at which a share can be sold is determined more by investor perception than any mechanical measure of intrinsic worth. A rise or fall in share value of an enterprise soon after disinvestment does not by itself indicate that shares were underpriced or overpriced at the time of disinvestment.

Two methods can be used for the sale of shares. One is offering shares at a fixed price through a general prospectus. The other is through auction of shares amongst a predetermined clientele setting a reserve price. Both the methods have advantages and disadvantages. The disadvantage of the first method is that in this method the ‘Fixed price’ cannot be determined by market forces. But the advantage of this method is that the shares can be distributed among large number of individuals. The advantage of the second method is that since the shares are sold by auction; the government can get more revenue. But its disadvantage is that in this method the shares are owned by a few persons and this increases the concentration of economic
power. In the case of those public enterprises for which the first sale of equity is yet to be made the tender system would be advantageous. Once a reasonable market price is established in a normal trading atmosphere over a reasonable period of time, the fixed price method would be appropriate.

In the initial years the government went in for sale of minority stakes without transfer of management control. In recent years the government has modified its policy and has emphasised strategic sale. Strategic sale means sale of majority shares to a partner with transfer of management control. According to the government the disadvantages of sale of minority stakes are follows:

(i) Lower realisation because the management control is not transferred.
(ii) With the limited holding remaining with the government after minority sales, only small stakes can be offered to the strategic partner, if it is decided to go for strategic sale subsequently. This depresses the possibility of higher realisation from the strategic partner.
(iii) The minority sales also give the impression that the main objective of the government is to obtain funds for reducing its fiscal deficit and not to improve performance of the units disinvested.

1.3.4 Disinvestment: Issues

The disinvestment policy of the government has been criticised by various groups- both within the government and outside the government. Critics have raised several issues in connection with the disinvestment policy; some of these issues are as follows:

1. Is the government’s classification of 1999 into strategic and non strategic sectors correct?
2. Is it desirable to disinvest profit making public enterprises?
3. What should be the procedure for disinvestment- public offer through the stock exchange or strategic sale to a private partner?
4. Should disinvestment create private monopoly in place of public monopoly?
5. What should be the method of valuation of a public sector undertaking (PSU) before a bid for disinvestment is made?

6. Should PSUs be allowed to participate in the bids for disinvestment of PSU?

7. How should the proceeds from disinvestments be utilized?

8. How should the interest of the workers be safeguarded?

Let us discuss these issues one by one.

**Issue of strategic and non-strategic sector:** The advocates of disinvestment argue that the public sector should be limited only to strategic areas. The critics argue that the strategic sector has been narrowly defined in India. Even in the USA the oil sector has been considered as a strategic area. But in India the oil sector has not been recognised as strategic; so is also the case of power generation. The oil units and power generation units should be considered as strategic and PSUs in these areas should be managed by the government.

**Privatisation of profit-making PSUs:** Government’s policy of disinvesting profit making PSU has also been criticised. The profit-making PSUs are like the geese that lay golden eggs and it is unwise to kill these geese. The supporters of disinvestments argue as follows: The rationale for privatising or not privatising a PSU is not based on whether it is making profit or loss but whether it is in a strategic sector or in a non-strategic sector, and whether the taxpayers’ money can be saved from commercial risks by transferring the risks to the private sector wherever private sector is willing to step in and assume such risks.

**Methodology for disinvestment:** It has been criticised that the government does not have a clear policy on the methodology of disinvestment. Earlier the government followed the policy of open auction sale. This method gave excellent result in 1994-95 when realisation was Rs. 4843 crore against the target of Rs. 4000 crore. But later in 1999-2000 the government has shifted to strategic sale. It has been argued by the disinvestment ministry that the public offer method is dilatory and takes a long time to complete the process of disinvestment. In this context it can be pointed that the public offer method was adopted in countries like UK, France, Germany, Malaysia and
others. If the method can succeed in these countries there is no reason to believe that it will not succeed in India. This method is transparent and liable to much less abuse. It is really intriguing that in the case of HPCL and BPCL, the government has adopted two approaches. In case of BPCL it will adopt public offering methodology and in case of HPCL it will adopt sale to a strategic investor. It is indeed strange why there should be two approaches for two companies that are otherwise similar and in the same business. Obviously the public offering methodology has logical superiority over the strategic partner method and the public offering method should be adopted in all cases.

**Creation of private monopoly in place of public monopoly:** It has been argued by the critics that through disinvestment and privatization the government is substituting private monopoly in place of public monopoly. By accepting Tatas as strategic partners in VSNL and Reliance in IPCL the government has substituted state monopolies with private monopoly. Monopoly, whether in public sector or in private sector, is undesirable but between the two, public monopoly is relatively less harmful than private monopoly because public monopoly is accountable to Parliament but in the case of private monopoly there is no such accountability. Private monopoly is therefore not desirable from the standpoint of efficiency. It is really strange that the government is passing competition law to promote efficiency and restrict monopoly on the one hand and promoting private monopoly through disinvestment on the other hand.

**Valuation of shares of PSUs slated for disinvestment:** the procedure adopted by PSUs slated for disinvestment for the valuation of shares has been criticised. Even the Public Accounts Committee (PAC) or the Comptroller and Auditor General (CAG) has criticised that the shares have been undervalued. There is no transparency in the procedure of valuation. Generally the task of valuation is done by an expert merchant banker and the valuation is placed for consideration by a Committee of secretaries headed by the Cabinet Secretary. There is no expert government agency to crosscheck the valuation made by the merchant banker and the parameters used in the process. Moreover, lands belonging to the PSUs have been left completely out of the exercise of valuation on the plea that they do not earn any income and hence they need not be
value. This is clearly unjustified. Critics have rightly commented that the government is selling PSU silver for a song.

**Equity swaps:** If the government sells the shares of one PSU to another PSU this is known as equity swap or cross holdings. The question is whether a PSU be allowed to participate in the bids for disinvestment of PSUs? Here again no consistent policy is followed by the government. Earlier ONGC bought 10 percent each of government equity in IOC and GAIL. But when BPCL and HPCL are taken up for disinvestment, the Department of Disinvestment is of the view that cooperative like IFFCO and KRIBHCO should not be allowed to bid for these oil giants. Neither should GAIL or IOC be allowed to participate in the bid. By eliminating PSUs and cooperatives, Department of Disinvestment intends to permit the private sector – Indian or foreign-alone to participate in the sale of BPCL and HPCL. The main argument of the Disinvestment ministry is that the sale of a PSU to another PSU goes against the goal of privatisation for which disinvestment is only a means.

**Utilization of the proceeds of disinvestment:** Disinvestment does not necessarily benefit the enterprises in terms of immediate accrual of resources. The proceeds of disinvestment go to the Consolidated Fund of India from which it meets the budget deficit. A basic criticism of the disinvestment policy is that a fund raised by selling family silver is used to pay the butler. On December 9, 2002 due to strong public pressure, the government announced that it would set up a separate Disinvestment Proceeds Funds to provide complete transparency to the government’s commitment to utilization of disinvestment proceeds for social and infrastructure sectors, rather than bridging the fiscal deficit. This is a welcome development. However, care should be taken that since resources become available from disinvestment proceeds, normal funds allocated to social and infrastructure sectors are not reduced. In order to sustain the interest of the enterprises in the process of disinvestment, it may be useful to set aside a certain percentage of the profits – say 10 percent as recommended by the committee on disinvestments – to be given to the enterprises themselves for their own expansion.

**Interests of workers and employees:** Although the government has announced that interests of workers and employees will be protected and safety net will be provided
nothing has been done except providing compensation under VRS. Opportunities for retraining and redeployment have not been developed at all.

Disinvestment is a process. We can learn from experience. We can modify the modalities as we go along. It seems that there is no way of retreating from disinvestment. It has come to stay in Indian economy. Two points should be noted in connection with the disinvestment policy. First, some restructuring of PSUs may be needed before disinvestment to enhance the value of shares and increase sale proceeds. The three broad areas of restructuring would be corporate governance, financial restructuring and business and technological restricting. Secondly, the process of disinvestment has to take into account the conditions in the capital market. Disinvestment should not result in “crowding out” resources available for the private sector.

1.4 Objectives of the Study

The objectives of the present study are as follows:

1. To consider the process of disinvestment of public enterprises from a theoretical perspective.

2. To give a brief account of reforms introduced in the public sector since 1991.

3. To consider the disinvestment scenario in India from different perspectives.

4. To consider the performance of selected disinvested public sector enterprises in India from the standpoint of profitability, liquidity and operating efficiency.

5. To judge whether the selected disinvested public sector enterprises are improving their performance or not due to disinvestment.

6. To give some suggestions and recommendations regarding how to improve the performance of disinvested companies in the public sector.

7. To give suggestions on the disinvestment policy followed by the Government of India.
1.5 Methodology and Data Source

We have collected data for ten divested public sector enterprises during the period 2000-2010. This data are primarily secondary data. Data relating to those enterprises have been collected from various issues of Public Enterprise Survey, published by the Department of Public Enterprises, and Government of India. Annual financial reports and balance sheets have also been used for the collection of data.

Since we are dealing with financial data, our tool of analysis will obviously be tools of financial statement analysis. The principal tool of financial statement analysis is financial ratio analysis. This ratio analysis has been used as the main tool in the present study. More specifically, we have calculated the values of different financial ratios for the ten selected disinvested public sector enterprises during the period 2000-2010. These ratios are then analyzed to judge the performance of the selected enterprises over the period. The ratios have also been used to compare the relevant enterprises on the basis of their performance during the study period. We shall then be able to decide individual public sector enterprise’s performance from the standpoint of liquidity or from the standpoint of profitability and from the point of view of operating efficiency.

Hypotheses of the Study

The following hypotheses are postulated for the purpose of the present study:

1. Profitability and operating efficiency of the enterprises will increase after disinvestment.
2. Debt-equity ratio will decrease as a result of Disinvestment.
3. Return on capital employed will increase as a result of disinvestment.
4. P/E ratio will increase after disinvestment.
5. Current ratio will increase after disinvestment.

1.6 Selection of Companies for the Study

We have selected 10 central public sector enterprises which have been partially or fully disinvested since 1991-92. The disinvested public sector enterprises have been selected from different sectors such as petroleum, steel, minerals and
metals, transportation services, fertilizer, medium and light engineering and contract and construction services, heavy engineering etc. The selection of companies has been done not on the basis of random selection but on the basis of judgement sampling keeping in mind their importance in the economy. The ten selected central public sector enterprises are as follows:

1. Bharat Earth Movers Ltd. (BEML) - share divested since 1991-92, Govt. holding 60.81% and divested 39.19%.

2. Bharat Electronics Ltd. (BEL) – share divested since 1991-92, Government holdings 75.86% and divested 24.14%.

3. Steel Authority of India Ltd. (SAIL) – share divested since 1991-92, Government holdings 85.82% and divested 14.18%.

4. Bharat Heavy Electricals Ltd. (BHEL) - share divested since 1991-92, Government holdings 67.72% and divested 32.28%.

5. Indian Telephone Industries Ltd. (ITI) – share divested since 1991-92, Government holdings 76.67% and divested 22.33%.

6. Shipping Corporation of India Ltd. (SCI) – share divested since 1991-92, Government holdings 80.12% and divested 19.88%.

7. Oil and Natural Gas Corporation (ONGC) – share divested since 1994-95, Government holdings 74.14% and divested 25.86%.

8. Indian Oil Corporation Ltd. (IOCL) – share divested since 1994-95, Government holdings 78.92% and divested 21.08%.

9. Gas Authority of India Ltd. (GAIL) – share divested since 1994-95, Government holdings 67.34% and divested 32.66%.

10. Container Corporation of India Ltd. (CONCOR) – share divested since 1994-95, Government holdings 63.08% and divested 36.92%.

1.7 Plan of the Study

Chapter- 1: Introduction

Chapter- 2: Public Sector Reforms in India
Chapter- 3: Disinvestment Scenario in India.

Chapter- 4: Brief History of Selected Public Enterprises.

Chapter- 5: Profitability of Selected Enterprises.

Chapter- 6: Liquidity of selected Enterprises.

Chapter- 7: Performance with respect to Operating Efficiency.

Chapter- 8: Summary and Conclusion.

1.8 Limitations of the Study

The present study has several limitations. In the first place, the choice of the ten disinvested central public sector enterprises is subjective. They have not been selected at random. Hence there may be an error of judgment.

Secondly, we have considered only financial data of relevant enterprises during the period 2000-2010. We have not considered other related data which are more crucial or important for the enterprises.

Thirdly, we have considered different ratios which are useful in judging the efficiency of the business only when they are compared with the past results of the business or with the results of a similar business. However, such comparison only provides a glimpse of the past performance and forecasts for future may not be correct since several other factors like market condition, management policies and Government policies etc. may affect future operations of the enterprises.

1.9 Review of Literature

Sudhir Naib (2004) in his study entitled, *Disinvestment in India: Policies, Procedure, and Practices*, considered the performance of 38 selected central public sector enterprises in India before and after their disinvestment. He has taken into account profitability, operational efficiency and liquidity of these enterprises. He has considered two types of enterprises – one operating in competitive markets and the other operating in monopoly markets. He found that profitability (ROS, ROA and ROE) dropped after divestiture. Fall in ROE in terms of PBDIT as well as PAT was statistically significant for the full sample. When divested enterprises were divided into competitive and monopoly environment, the fall in profitability persisted in
enterprises operating in competitive environment and in fact PBDIT/sales, PBDIT/equity and PAT/equity dropped significantly. However, enterprises operating in monopoly environment showed improvement in profitability in terms of ROA and PAT/assets and it was statistically significant.

While examining operational efficiency of divested enterprises it was expected that leverage ratios (total debt to total assets), should drop after divestiture. As expected, there was reduction of debt vis-a-vis assets and it was statistically significant for full sample and monopoly group of enterprises.

Dividend payout increased as expected for the full sample as well as sub samples, i.e., competitive and monopoly group of enterprises. The increase for full sample as well as monopoly enterprises was statistically significant.

Contrary to expectation liquidity decreased for full sample and for enterprises operating in competitive environment. However, liquidity improved in case of monopoly enterprises.

Sales efficiency (real sales/ no. of employees) improved for full sample and for monopoly enterprises but dropped for sub-sample of enterprises operating in competitive environment, although not significantly.

Prabhakar Singh (1999) has made a study entitled *Privatizing Sick Public Undertakings*. He has collected opinions of respondents from senior executives of two public sector enterprises, two private sector enterprises and one academic institute in Jharia Raniganj coal belt. He has shown how the reactions of executives and academicians vary on different issues relating to privatization. He finds that there are differences of opinion between executives and academicians regarding meaning of privatization, forms of privatization, and steps to privatization. The author concludes that privatization does not necessarily mean complete sale of public enterprise to the private sector. Moreover such privatization is desirable for the revival of sick public sector enterprises. He has suggested establishment of a privatization commission.

of Hindustan Teleprinters Limited (HTL) after its disinvestment. They have also analysed the disinvestment process of HTL.

Nitish Sengupta (1994) in his article, “Privatisation: the only Option” published in The Economic Times has considered the pros and cons of privatisation of public sector in India and has suggested that privatisation is the only way to increase the efficiency of public sector enterprises in India.

In another study, Sudhir Naib (2002) compared efficiency of 26 enterprises (13 public and 13 private) for a 12 year period from 1988-89 to 1999-2000. Results indicated that both public and private firms experienced modest positive average annual growth rate during this period. This study also revealed that at the enterprises level there is little empirical justification for a general presumption in favour of either type of ownership and a case by case examination may be more revealing.

Rahul Mukherjee (2004) in his article “Privatisation, Federalism and Governance” published in Economic and Political Weekly has considered that regulated privatisation was both essential and challenging in the Indian context. The telecom sector story revealed how difficult it was for a newborn regulator with good intentions to check the excesses of the government monopoly producer. The power sector stories highlighted what happens when the regulator did not behave independently, and, collude with the government’s producer. A regulator, combining legislative, executive and adjudicatory roles needed to function within the context of democratic checks and balances, so that regulatory capture was exposed and dealt with efficiently. This required careful consideration and institutional innovation.

EAS Sarma (2004) in his study “Disinvestment: What FMs Have said since 1991”. Published in Economic and Political Weekly finds that whether it is disinvestment or any other measure of reform, the process of adapting it to suit the local needs is important. Instead of shying away from the basic question, any government worth its name should address them frontally and take the Parliament and the public into confidence before proceeding further. It is unfortunate that most of India’s leaders, after getting elected by the masses, look for approbation from industrial houses for their policies.
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Broadman and Vining’s (1989) study is of popular interest in this context which compared the performance of private corporation, state owned enterprises and mixed enterprises among the 500 largest US industrial firms. This study is relevant in Indian context as in a number of cases partial divestiture has been resorted to. In this study they analysed four profitability measures (i) Return on equity, (ii) Return on assets, (iii) Return on sales, and (iv) net profit margin. They observed that the results provide evidence that after controlling for a wide variety of factors, large industrial mixed enterprises and state owned enterprises perform substantially worse than similar private corporations. In terms of all profitability indicators, mixed enterprises perform no better and often worse than state owned enterprises. These results also suggest that partial privatisation where the government retains some percentage of equity, may not be the best strategy. They suggest that it may be on account of conflict between public and private share holders in joint ownership leading to high degree of managerial cognitive dissonance and accordingly partial privatisation may be worse in terms of profitability than complete privatisation.

R.K Mishra, B Navin (2002) in their study entitled Restructuring Public Enterprises in India considered the power sector reforms undertaken by various state Governments in India. They suggested that long term aim of restructuring the industry, as far as possible, should bring it along competitive lines, because parts of the industry are natural monopolies. Restructuring should therefore be effected in a way that reduces the monopolistic features. Privatisation of distribution and of transmission is needed both to bring in the volumes of investment required for system expansion and to bring about qualitative improvements and managerial efficiencies.

G. Ganesh (2001) in his study entitled Privatisation in India finds that privatisation will succeed only if it is conceived as a part of the overall liberalization process, involving removal of protection to inefficient industries in the public sector, amendments to laws which competition, reforms aimed at opening up of hitherto closed sectors of the Indian economy and rapid reform of the financial sectors. These measures would help considerably in increasing investment.

M.M. Luther (1998) in his study entitled Public Sector Reforms-Myths and Realities has argued that government has no business to remain in business and it
should disinvest its business interests and focus on real governance of the country. If we have to progress as a nation and secure our position on the League of Nations, then we will have to invest in our people’s education, health and basic infrastructure. To do that, the resources will have to be withdrawn from PSUs through the process of disinvestment.

S. P. Gupta (1998) in his study *Post-Reform India* finds that the disinvestment policy adopted by the Govt. is the only solution to a very repetition of unprecedented fiscal crises which was faced by the country in 1990-91. This policy will not only make India economically strong but will also lead the nation to the path of happiness and prosperity. The results of disinvestment done so far are clearly visible from the better living standard of a common man who is enjoying the benefits of modern development. The policy adopted for economic reforms will make India one of the leading economically strong developed nations in the world.

Afghan Ahmad (1998) in his study *Public Enterprises and Economic Development* opined that it will not only help the government withdraw relatively easily from the loss making public sector from running textile mills to steel plants, from managing hotels to operating airlines and a variety of other sectors where the government is currently involved in, but will also help divert the much needed resources in the area of primary education and infrastructure development of the country.

G. Ganesh (1999) in his study entitled *Privatisation Competition & Regulation in the U.K. – Case Studies* finds that the disinvestment policy adopted in the U.K. is aimed at improving autonomy to enterprises, and reforms at price front. The competition was promoted in factor and product market, the budgetary process was also changed and linked to profitability and efficiency norms. All these resulted in to improved performance of these state owned enterprises.

N. Dhameja & K. S. Sastry (1998) *Privatization – Theory and Practice* considered that the objectives of disinvestment should be to benefit the public, the consumer and the investor and at the same time to improve competitiveness and eliminate monopoly.
Asha Gupta (1999) in her study entitled *Towards Privatisation* finds that the Government believes that privatisation should increase competition, not decrease it. It will not support the emergence of any monopoly that only restricts competition. It also believes that there must be a direct link between privatisation and social needs like, for example, the use of privatisation revenues for designated social sector schemes. Public sector companies and nationalised banks will be encouraged to enter the capital market to raise resources and offer new investment avenues to retail investors.

S.K. Majumdar (1995) in his article “Public, Joint and Private Sectors in Indian industry- Evaluating Relative Performance Differences” published in *Economic and Political Weekly* (1995) evaluated relative performance differences between the government-owned, joint sector and private sector of Indian industry. The study uses data generated by the Annual Survey of Industries pertaining to organised sectors of manufacturing industry from 1974 to 1989 and thus is of aggregate nature. For computation of an efficiency index for each observation, inputs are rupee value of fixed and working capital and number of employees. The result established that in aggregate government owned enterprises are less efficient than firms in the joint or the private sector. The joint sector firms are more efficient than government owned firms, but less efficient than those in the private sector, while the private sector is comparatively the most efficient sector in Indian industry.

R. Pryke (1982) in his study entitled *The Comparative Performance of Public and Private Enterprise* considered the economic performance in three industries. He analysed a range of productivity, profitability and output variables and concluded in each case that private firms tended both to be more profitable and exhibited greater internal efficiency than their public sector enterprises.

S. Martin & D. Parkar (1997) in their study entitled *The Impact of Privatisation* conclude that private ownership leads to better use of resources and their more efficient allocation. Throughout the world, the preference for market economy received a boost after it was realised that the state could no longer meet the growing demands of the economy and the state share holding inevitably had to come down. Another impact of privatization policies around the globe has been the inability of the
government to raise high taxes, and the development of money markets and private entrepreneurship.

R. Jha & B.A. Sahani (1992) in their study *Measures of Efficiency in Private and Public Sector Industries: the case of India* have used Annual Survey of industries data for the years 1961-1983 for four industries: cement, cotton textile, electricity and iron and steel. The latter two industries, they claim, are primarily in the public sector while the first two are owned predominantly by private sector. The authors found no evidence of allocative inefficiencies in general and each of them is relatively as efficient as one another.