Chapter II: BACKGROUND OF THE STUDY
OBJECTIVES
SCOPE AND METHODOLOGY
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Inspite of spectacular growth, investment and achievement there is a wide spread criticism/feeling that PEs in India particularly SLPEs are not being run efficiently. Their dismal performance has gone to such an extent that it has threaten the very existence of the public sector system in Indian States. While the performance of CLPEs are under constant scrutiny and there is pressure from all concern for its improvement, the dismal performance of large number of SLPEs have remained unexplored. Several commissions and committees have been set up by the Central Government with regard to increase the efficiency of CLPEs since independence. Eminent economists, researchers and administrators have also focused their attention mainly to the problems of the CLPEs in India. While there is a growing literature on the central level public enterprises, the research studies and even the statistical data about the State Government undertakings are scanty. The one-sided approach of the researchers has evidently created a big gap between the CLPEs and SLPEs in India.

However the position differs from State to State and enterprise to enterprise. An inter-state
comparison of profitability of these enterprises under different categories shows that there are variations in their performance. While industrial enterprises made profits in some states they made losses in others. Even promotional enterprises made loss in some states have earned profits in other states. What the facts suggest is that SLPEs can make profits. If they are not profitable in a situation it is mainly for reasons other than those of repressive government policies and probably factors intrinsic to the enterprises, such as viability of the projects or imprudent management, etc.²

In case of Orissa, SLPEs have been proved to be a drain on the meagre resources of the state. The latest report of the Comptroller and Auditor General (CAG) of India for the year ended 31st, 1991, reveals the miserable state of affairs of SLPEs in Orissa. Most unfortunately, CAG is also in darkness about the number of public enterprises in Orissa. In the said report, it has been mentioned, there are four statutory Corporations namely Orissa State Electricity Board, Orissa State Financial Corporation, Orissa State Ware-housing Corporation and Orissa State Transport Corporation, as an 31st March 1991.³ But in our study we find, excluding these four, another half a dozen statutory corporation are also running for more than ten years. Orissa Industrial Infrastructure Development Corporation (IDCO)
and Orissa State Housing Board (OSHB) are a few examples only. As regards to the Government Companies are concerned neither the management of Government companies nor the Government of Orissa, are in a position to tell accurately about the total investment made by the Government of Orissa as on 31st March 1991.

Even, there are instances, that the government companies have not cared to supply the informations to the CAG of India, though legally, they are duty bound to do so. The accounts of these enterprises were in areas ranging from one year to ten years. In the absence of audited accounts it is extremely difficult to measure the financial performance of these undertakings particularly in regard to their profitability.

Under the provisions of Indian Companies Act, 1956 and also the statutes under which some of these enterprises have been set up, are required to finalise their accounts within six months from the date of closing of there accounting year. Failing which the company and every officer in default are liable to be punished. But we could not come across a single case where action has been taken against any defaulting government company or its officers in Orissa.

Since 1985-86, the Planning & Co-ordination
Department (Corporation section), Government of Orissa has undertaken the task of compilation, analysis and publication of financial and other important data in respect of the public enterprises in the state under the name and title of "Public Enterprises Profile" annually. As, most of the enterprises were unable to finalise their accounts, the financial data are based on provisional accounts. Even this report does not cover all the enterprises in the state due to non-submission of information whole heartedly. Finally, Government has also failed to publish it in time. Because of the delay in its publication, the information becomes out of date and hardly serves the purpose for which it is being published. In short, there is total lack of systematic and up-to-date data about the state level enterprises in Orissa. The performance of SLPEs cannot be properly evaluated without a regular flow of reliable information. Perhaps, realising this grave situation, Government of Orissa has created a new department "Department of Public Enterprise" recently. Let us hope, situation will change in future.
The genesis of research on management of SLPEs in Orissa like its counterparts at the centre, began with government enquiries and legislative reports. In early sixties Government of Orissa had appointed a committee to examine the operation of public enterprises in Orissa under the Chairmanship of P.S.Lokanathan. The Committee had critically analysed the problem areas of State Government undertakings in Orissa and suggested the actions to be taken for its growth and development.

The committee on public undertakings (CPU) is a standing committee of the Orissa Legislative Assembly since 1st April 1965. The main functions of the Committee are: (i) to examine the reports and accounts of the public undertakings, (ii) to examine the reports of the CAG of India on Public Undertakings of Orissa, (iii) to examine, in the context of autonomy and efficiency of the public undertakings are being managed in accordance with sound business principles and prudent commercial practices, and (iv) such other functions as may be assigned by the House or the Speaker from time to time.

During the past twenty five years, CPU has submitted a number of reports to the Orissa Legislative Assembly on the activities of these Undertakings. Except
a few, most the studies conducted by the CPU are based on the findings/comments of the CAG of India.

The Orissa Legislative Assembly debate proceedings on the annual reports of the public undertakings and the reports of the CPU, also provide an opportunity about the activities/ performance of the SLPEs in Orissa. The critical analysis, comparisons and constructive proposals/suggestions given by the M.L.As are of great importance. Even the answers to the questions asked by the M.L. As also serve as a source of information. But generally the debates and answers to the questions are neither comprehensive nor adequate to evaluate the efficiency of the public undertakings.

Besides these government agencies and official documents there are some studies on the working of the public undertaking in Orissa made by the individual researches. In 1975, A.P. Padhy had broadly surveyed the workings of State Enterprises in Orissa, covering their background, growth, organisational structure, governing boards and accountability. During late 70s R.C. Roy had studied about the organisational pattern and working of the SLPEs in Orissa with special reference to personnel administration. His study was limited to twelve major public enterprises.

There are several doctoral/predoctoral
dissertations have been submitted by the research scholars on the growth and working of SLPEs in Orissa. Many of these studies are of general nature and/or related to a particular public enterprise, like Orissa State Electricity Board, Orissa State Financial Corporation, Industrial Promotion and Investment Corporation of Orissa Limited, Orissa Tourism Development Corporation Limited, etc. where the concentration on the functional areas is limited. Particularly, we could not find any systematic/indepth study on the working capital management of the state government undertakings in Orissa. The present study aims at filling the above research gap to certain extent with special reference to SLPEs engaged in manufacturing activities.

**OBJECTIVES OF THE STUDY**

The objective of the study is to identify the problems relating to the management of working capital in the State Level Public Enterprises of Orissa and to offer suggestions for their improvement. The study specially aims at the following:

(a) To outline the growth and working of the SLPEs in Orissa to have background over the problems of these enterprises;
To discuss the problems of working capital in an overall manner;

To study the various issues including the importance of working capital and the management of different components of working capital, viz cash, inventory and receivables; in order to determine the degree of efficiency with which each of these components was managed;

To examine the pattern of working capital finance and to locate the problems faced by the enterprises in securing/arranging funds for meeting the working capital requirement; and

Finally to pin-point the constraints in the above areas and to suggest possible remedies.

**SCOPE OF THE STUDY**

The present study aims to deal with the undertakings owned and managed by the Government of Orissa. As indicated earlier, there were mainly three categories of government commercial concerns in Orissa: (i) Government Companies, (ii) Statutory Corporations, and (iii) Departmentally Managed Commercial Undertakings. But we limit our study only on government companies. There were 73 Government Companies (including subsidiaries) as on 31st March 1991. These Government
Companies can be classified into different categories on the basis of their activities/functions; such as manufacturing, commercial, financial, promotional and public utilities. But, as the working capital cycle would be complete only in respect of manufacturing organisations, we propose to concentrate on this category of enterprises. The study is intended to cover a period of 10 years i.e. from 1981-82 to 1990-91.

However, we have excluded the pilot project companies from our study, as most of these companies were defunct and/or under various stages of liquidation. Further, those enterprises which have either started their production after 1985-86 or have not finalised their accounts upto 1985-86 are excluded from the study. Hence the following SLPEs in Orissa are selected for in-depth analysis.

1. Orissa Textile Mills Limited
2. Industrial Development Corporation of Orissa Limited
3. East Coast Salt and Chemical Industries Limited
4. East Coast Breweries and Distilleries Limited.
5. Sonepur spinning Mills Limited
6. Orissa State Textile Corporation Limited

The profile of these enterprises covering background, activities and environment is analysed below:
1. ORISSA TEXTILE MILLS LIMITED (OTML)

The Orissa Textile Mills Limited was incorporated on 25th January, 1946 under private sector for manufacture and marketing of yarn and cloth. Due to abnormal losses and financial crisis the company was taken over by the Government of India on 18th September, 1981 for a period of one year under the Industrial (Development and Regulation) Act 1961 and was entrusted to the Orissa State Textile Corporation Limited as the authorised person under this Act. The enterprise became a State Government Company with effect from 27th August 1983 on acquisition of its shares by the Government of Orissa. The registered office of the Company is situated at Choudwar.

2. INDUSTRIAL DEVELOPMENT CORPORATION OF ORISSA LIMITED (IDCOL)

The Industrial Development Corporation of Orissa limited was incorporated on 29th March, 1962 as a government company. The principal objective of the company was to promote heavy and medium scale industries in the State. IDCOL started its activities by taking-over the maintenance workshop of the Hirakud Dam project at Hirakud in the year 1962-63. This maintenance workshop was converted into a modern engineering workshop. This followed by taking over the Kalinga Industries Ltd, Barbil, in 1963-64. At present the Company has eight production units, namely: (1) Hirakud Industrial Works,

IDCOL has two subsidiary government companies. It has a number of joint sector projects and assisted units. The registered office of the Company is situated at Bhubaneswar.

3. EAST COAST SALT AND CHEMICAL INDUSTRIES LIMITED (ECSACIL)

The East Coast salt and chemical industries Limited was incorporated on 27th October, 1965, as a government company. It was a subsidiary of the Industrial Development Corporation of Orissa Limited. The objectives of the company was to manufacture salt and salt based chemicals. Since the operations of the company were not satisfactory, the Board of Directors at its meeting held on 3rd August, 1985 decided that the company should close its operations after 30th September 1985. The activities of the company were discontinued w.e.f. 1st October, 1985. The registered office of the company is situated at Bhubaneswar.

4. EAST COAST BREWERIES AND DISTILLERIES LIMITED (ECBDL)

East Coast Breweries and Distilleries Limited was
incorporated on 27th October 1969 under private sector to manufacture and sell beer and other liquor products. The promoter has obtained a licence to manufacture 0.50 lakh hectolitres of beer per annum at Paradeep. At the request of the entrepreneurs in December 1971, Government of Orissa invested ₹33.00 lakhs in the share capital of the company.

In December 1971, Industrial Development Corporation of Orissa Limited (IDCOL) had also invested ₹5.00 lakhs at the instance of the Government. The paid-up capital contributed by the Government of Orissa and IDCOL having reached 83 percent of the total paid-up capital of the Company in December 1975, it became a government company under section 619 B of the Companies Act, 1956, Government of Orissa decided to entrust the management to IDCOL for a better control over the working of the company. Thereupon, the shareholdings of the private entrepreneurs were acquired (April/June 1983) by IDCOL, whose investment on such acquisition stood at 66.8 percent of the total paid-up capital and consequently the company became a subsidiary of IDCOL in June 1983. The registered office of the company is situated at Paradeep.

5. **SONEPUР SPINNING MILLS LIMITED (SSML)**

Industrial Development Corporation of Orissa Limited (IDCOL) had obtained an industrial license in October, 1979 for setting up a spinning mills with a capacity of 25,080 spindles in Orissa. For implementing
the project of Sonepur (District: Bolangir) IDCOL floated a subsidiary company under the name and style "Koshala Spinning Mills Limited" on 4th January 1980. The name of the Company was changed as Sonepur Spinning Mills Limited in April 1980. The registered office of the company is situated at Bhubaneswar. Execution of the project was scheduled to be completed by March, 1982. But the completion of the project was delayed by one year due to lack of rail communication and other infrastructural facilities at Sonepur.

6. ORISSA STATE TEXTILE CORPORATION LIMITED (OSTCL)

Orissa State Textile Corporation Limited was incorporated on 10th September, 1981 as a fully owned government company with the main objectives of promoting and developing textile industry in the State, by taking over sick mills, setting up spinning mills and providing resources of all kinds including technical and managerial assistance.

Consequent upon the formation of the company, government appointed the company as an authorised person for management of Orissa Textile Mills Limited (OTML) under Industries (Development and Regulation) Act, 1951. OTML became a State Government Company in August 1983.

In April 1984, OSTCL took over the control of the following sick mills on lease basis:
(1) Orissa Co-operative Textiles processing society limited, Jagatpur;

(2) Chhatia Weaving Mills Chhatia;

(3) Barunei Powerloom Weavers' Co-operative Society, Khurda; and

(4) Modhunagar Powerloom Weavers' Co-operative Society, Cuttack.

The Bhaskar Textile Mills, Jharsuguda under private sector, engaged in spinning of yarn since 1964, was closed in October, 1983 owing to continuous losses. The Mill was nationalised by the State Government in August, 1985 and its management was handed over to OSTCL. The registered office of the company is situated at Choudwar.

7. KONARK TELEVISION LIMITED (KTVL)

Orissa Small Industries Corporation Limited, a Government of Orissa enterprise, established one unit named "Konark Television" at Bhubaneswar in 1973 with a production capacity of 5000 TV sets per annum. Consequent upon the massive expansion of television network undertaken by Government of India, demand for TV sets has been increased in the Country. So the unit was separated from the Orissa Small Industries Corporation Limited and was incorporated as a fully owned Government company with
effect from 26th June 1982 under the name and the style of "Konark Television Limited". The company has increased its production capacity from 5000 to 1,00,000 TV sets per annum since 1986-87.

As a part of diversification programme of production, the company has entered into new areas by launching washing machines and domestic mixies. The registered office of the company is situated at Bhubaneswar.

**METHODOLOGY**

The study was exploratory as well as hypothesis testing in nature. The researcher has visited the selected enterprises, conducted spot studies and collected the data through questionnaire, interviews and observation. A questionnaire was framed to elicit informations regarding the procedure and techniques adopted by the enterprises for the management of various components of working capital and the working finance.

The other sources of data include the annual reports of the concerned enterprises, reports of the CAG, reports of the PUC of the Orissa Legislative Assembly, circulars issued by government/public undertakings, reports of the RBI study groups, earlier research studies, books, journals and news papers.

Nineteen consolidated statements are prepared on the basis of the data collected from the P & L A/cs and Balance Sheets of the selected enterprises on the study and are annexed at the end of the thesis. A number of tables have also been presented in different chapters drawing the figures from the aforesaid statements to avoid repetitive calculations.
LIMITATIONS OF THE DATA

Though the study was intended to cover a period of ten years, i.e. from 1981-82 to 1990-91, but none of the selected enterprises has finalised their accounts for the year 1990-91. While OTML, OSTCL, ECBDL & KTVL have finalised their accounts upto 1988-89, IDCOL and SSML and finalised their accounts upto 1987-88. As ECSACL had ceased its operation with effect from 1st October, 1985 the data were limited to 1985-86 only. Also these enterprises had also not followed a uniform accounting year and the closing dates were different. So the aggregate date of all the enterprises could not depict the position on a particular date.

Even the variations in the years of incorporation (or take-over by the Government) of the enterprises deprive us of the advantage of making out any uniform period for this study.

PLAN OF THE STUDY

The study has devided into eight chapters. The first chapter presents the importance of public enterprises in Indian economy, State level public enterprising in India, performance of SLPEs in Orissa and their problems.

The second chapter provides the background of the
study, objectives of the study, scope of the study and methodology.

The third chapter discusses the theoretical aspects/conceptual framework of working capital management.

The fourth chapter deals with the planning and control of cash and evaluates the managerial performance of the enterprises.

The fifth chapter analyses the credit and collection policies of the enterprises.

The sixth chapter throws light on the inventory management of the enterprises.

The seventh chapter examines the management of working finance of the enterprises.

The last chapter is devoted to summarise the findings and suggests the possible remedies.
REFERENCES


4. I bid, P-12.

5. I bid, P-3.

6. I bid, P-216.


9. See the "Reports of the Committee on public undertakings", Orissa Legislative Assembly Secretariate, Bhubaneswar.
