CHAPTER 3

REVIEW OF THE LITERATURE

The state of Kerala has the largest number of State Level Public Sector Enterprises (SLPEs) in India. But the growing picture of industrial sickness has now become a serious problem in the state. The overall performance of public sector undertakings in Kerala is poor. The result is that many of the public enterprises have become a burden rather than an asset to the government. The Industries Department had brought out an elaborate White Paper in 1998 on the status of the public sector units and with prescriptions to remedy the situation. According to the White Paper, the Government would not continue to prop up loss-making public sector entities.

“Restructuring” is the term the paper uses to describe what the Government proposes to do in the case of such units and this encompasses privatisation. The target was to restructure 25 enterprises by June 2003. The nature of the restructuring process would be decided on a case-by-case basis. The Enterprise Reforms Committee (ERC) constituted by the Government would be presenting a detailed proposal on each such case to the State Planning Board. After scrutinizing the proposal, the Planning Board would make suitable recommendations to the State Cabinet for the
final decision. The restructuring process would be a time-bound operation. The ERC had been invested with sufficient powers to tell the Government what should be done with each public sector unit (PSU). A more radical suggestion put forward by the paper, is the closure of companies with high net worth erosion and where many past efforts at revival had not yielded results.

In connection with the revival of PSUs under the Industries Department steps are being taken by the Government to restructure and revive the SLPEs by a comprehensive policy initiative through up-gradation of technology, performance contract agreement, inter PSU tie ups, capacity building, and efficient corporate governance.

A large number of studies have been conducted in this regard by various experts in this field. In the light of the above situations in this chapter, at most care has been taken in briefing the outstanding literatures connected with the subject. Many studies have been reported indicating the pathetic stage of Public Sector Undertakings. However the academicians have not conducted an in-depth study with the objective of framing a strategy for rescue of loss making PSUs on the basis of reasons and causative factors for such a pathetic condition of the PSUs in Kerala. This study has initiated measures to get to the root of the problems and weed them. Anyway a number of
studies support the present problems prevailing in the Public Sector Undertaking of the state which are itemized below.

1. DP Nayar (1980 August) made a detailed analysis of the working of nine state government undertakings in Kerala to make his study more concrete. The performance of one of the enterprises was singled out for detailed analysis and it was compared with similar private enterprises. He conducted that there was under utilization of all factors of production which obviously implied a defect in the economic organization indicative of inefficiency

2. Bakul H Dholakia (1980 December) in his book “changing efficiency of public enterprises” concludes that in a country like India it is the index of factor productivity that represented the most appropriate criterion for evaluating the overall performance of public enterprises, in relation to that of private enterprises.

3. V.Gangadharan Pillai, (1980) conducted a study on Kerala State Road Corporation, Kerala State Electricity Board, Trivandrum Rubber Works and Kerala State Industrial Development Corporation to analyze their managerial set up and administration problems. He found that inefficiencies of management, lack of finance, defective recruitment system,
political interference and indiscipline of the workers were the important factors responsible for the unhealthy performance of the state enterprises in Kerala.

4. Venkatachalam, (1980) has made a study on “the performance of public sector enterprises especially considering the trends and relative roles of external and internal sources in public sector enterprises covering a period of nineteen years from 1960-61 to 1978-79”. He has evaluated the financing pattern of public sector enterprises were increasingly dependent upon external sources of finance. The borrowing from government and semi government agencies continuously increasing. He has observed that the imbalances in the financial structure caused by heavy doses of debt capital has created the interest burden and it is constituting in its own way for improving the operating efficiency through allowing private equity participation, reorganisation of capital structure and rationalisation of pricing policy

5. K R.V Singh (1981) has made an exploratory study on “the performance of public enterprises during the period 1979-80”. He has identified a number of reasons for the performance of public enterprises, which include the long gestation period, adoption of administered price policies, managerial
inefficiencies and indifferences, accountability, role of politicians in policy making etc.

6. PR Willson (1981) conducted a study on “social planning and control in public sector undertaking in Kerala”. He evaluated the existing system of financial planning and control and its role in reducing losses and increasing profit. He concludes that majority of our public sector undertakings were running without proper planning and control that resulted in a continuous loss situation in the above sector.

7. Bagchi K Amiya (1982) in an article, has evaluated the performance of public enterprises during the period of 1976-86. The major suggestion made by him is that our public enterprises should implement different recommendations made by different committees for the betterment of their efficiencies. He has got a good word on those enterprises which have provided more employment opportunities and contribution to the net domestic savings in India.

8. M.Srinivasan (1984) has made a study on some of the recent trends in financing public sector enterprises in India. He observes that the role of equity has been declining in public enterprises from 26.4% to 20.6% and interest bearing funds have
been occupying 30.0% to 33.6% of the total capital structure during 1975 and 1983. These shifts together with increasing interesting rates have hiked up the interest burden of the enterprises and have adversely affected the financial viability. Contrary to the performance of private sector enterprises that were able to bring down the share of costlier bank loans during the same period. He suggested for adopting a more realistic approach in the preparation of financing plans and adoption of innovation modes of financing, considering the debt capacity and the available operating surpluses in public sector enterprises.

9. S.S Sahey (1984) in a study conducted on “financial management of Bihar state enterprises” he hypothesised that the poor financial performance of these state enterprises was related to their poor financial management. To substitute this he studied the capitalisation and capital structure and source of long term funds of sick public sector enterprises.

10. RBI (1985) “A number of units taken over by central government have declined from 9 on 1979 to 1 in 1982. No units were taken over in 1983 and 1984. Infact the government now believes that takeover is no remedy for the growing industrial sickness”
11.K. Viswanathan, (1985) has evaluated the performance of public sector enterprises during 1979-80 and 1984-85 between the two categories of industrial units, he observes that the production-oriented industries are faring in a better way than the others. In the light of losing the entire capital base by some of the loss making enterprises, he recommends for the adoption of joint stock concept by erring the enterprises on rails.

12.R. Bagchi. (1986) had made an evaluation on the role of public sector enterprises in India against the explicit and implicit objectives during the period 1976 and 1985. He has appreciated the performance of these enterprises in respect of their efficiency in generation of employment and their contribution to the net domestic savings in India. He laminated on non-implementation of different recommendations made by the different committees for the betterment of the efficiency of these enterprises. He has pleaded for restructuring the management styles and accountability aspects of these enterprises.

13.K. Balan (1987) PP. 14 "Management of Industrial Sickness" Loss making industries both the private sector and public sector are contributing for the down fall of industrial economy. Large amount of investment in many of these industries give very little or no return to the government. Good numbers of them are on the
way to sickness, and will fall victims of sickness if we fail to take drastic steps to reverse the trend. These industries though not sick are making the economy sick.

14. Chattopadyay (1987) has brought an evaluation work on the performance of Central Government enterprises covering a period of 18 years from 1967-70 to 1986-87. He presented the criticism leveled against the performance of public sector enterprises and evaluated that the public sector units do have the potential to record much better results, provided they are run on business lines by maximising the rate of return on capital employed. He has put forward a number of suggestions to improve the working of these units, including the application of principles of sound management.

15. Shastri Metha. (1987) in an article has concluded that because of the interference from quarters from the project approval to implementation, our public enterprises could not run profitably. This also leads to lack of accountability.

16. Hemalatha Rao (1988). by evaluating the working of Karnataka Electricity Board found that it could not generate enough internal recourses to finance further power development programmes in the state as a result the major portion of capital
expenditure had to be financed by external resources like loans from the government and other public financial institutions, taken at interest.

17. T.L. Shanker Nandagopal and R.K. Mishra (1988) in the book "Performance and Development of State Level Public Enterprises" observe that a three-tier system should be adopted to improve the performance of state level public enterprises in India. In the short turn these enterprises would do well to initiate measures with regard to cost control and cost reduction medium. Term measures would include restructuring of the organization set-up of the state level public enterprises, long term measures would include restructuring of the organizational set up of the state level public enterprises long term measures would include the preparation of corporate plan strengthens of management etc.

18. G. Venkitachalam (1988) in his book "Financing of Public Enterprises in India" concluded that the public enterprises were increasingly more dependent upon external ones. He also concluded that the poor profit performance of central government public sector enterprises was responsible for the poor generation of internal funds.
19.(4-9 April 1988) In the one week course on “public enterprises management for IAS officers” the study team evaluated the performance of the state level public enterprises in Kerala they found that the government should not have gone to float a large number of organisations, mostly manufacturing concerns where it could achieve the purpose by formulating a policy to promote private investment in the field.

20.(1988) in the one week seminar on the Karnataka Public Sector - Enterprises the committee headed by Kalyan Roy found that there was lack feedback from the public sector enterprises to the government the committee also concluded that an element of social audit should be introduced while judging the performance of an organization.

21.R Narayan (1989) in an article of performance and development of the stale level public enterprises in Kerala concluded that the low profitability of the state level public enterprises was due to labour unrest and management failure. Lack of corporate culture poor marketing approaches, financial difficulties in the form of heavy investment payment on debts and by the large, lack of professionalisation in management.
22. M.B.G Tilak (1989) In the article "overview of performance of public sector enterprises of the government of Gujarat", concluded that general measures like professionalisation of the board of management, observation of scientific principles of management strict vigil-over the public performance by nodal agencies like the bureau of public enterprises would pave the way for the desired goal of public enterprises.

23. Shastri Mehta, (1990) had made a survey on the exiting level of performance of public sector undertakings and collected literature on the working of public sector enterprises during the last three and half decades feels that because of the interference from different quarters, from project approval to implementation, leads to lack of accountability. He estimates that the delays, poor coordination, wrong decisions, wrong selection of sites, machinery staff will cost the nation to the extent of 10 percent of total Seventh plan outlay. He suggests for writing off the accumulated losses of some public sector undertaking and gives a chance to introduce a new work culture for the future betterment in them.

24. According to UNIDO study (1991) among the various causes of industrial sickness are management deficiencies in accurate
market for costing inefficient use of working, Capital, labour unrest and cost escalation.

25. Kapadia (1991) has made a study to find out the contribution of "taken over" units in the poor financial surpluses earned by public sector enterprises during of total investment, 22 percent of total sales turnover and much higher 45 percent of employment of all Central Government enterprises. He observes that 48 take over units are in red during the years period of the study amounting to Rs 936 cores. He suggests for no more takeovers of sick industrial units just for the sake of protecting the employment as these units subsequently behaving as relief undertaking and mostly are non viable to achieve the commercial results from them.

26. Bhatia (1992) has made a review on different studies relating to “the profitability performance of public enterprises”. The studies reviewed by him have concluded that the common melody for deteriorating performance of public enterprises is the lack of commitment and lack of accountability of management at all levels.

27. Bimal Jalam (1992) in his article "the Indian economy problems and prospects concludes that the performance of public sector
has been satisfactory in respect of the rate of total investment but the economic performance has not been up to the expectations.

28. Antony M.T (1992) in his study "efficiency in control public sector enterprises in kerala" concludes with the statement that the efficiency of CPSEs in Kerala measure by the parameters, capacity utilization, profitability and productivity, has been showing relatively better performance than the CPSEs in India as a whole. He further stated that power shortage and labour problems are the two important problems that hindered the still better performance of the public sector enterprises in Kerala.

29. Ashok Kurnar Sinha (1993) in his study "trade unions and production in iron and steel industry in India" declared that trade union activities effects labour productivity to a great extent, satisfied labour is an asset to the undertaking especially in terms of productivity where as ever grieving and agitating labour force not only affects the performance of the undertaking adversely but also brings down planned productivity.

30. B.A Prakash (1994) in his study discloses that the sustained losses incurred by the industrial undertaking run by the state government discourage initiation of any new undertaking in spite of the efforts of the state government private investors are
reluctant to start large or medium industrial units the cause of this may attribute to higher cost of production arising out of higher input cost and labour cost compared to other states.

31. T.L.N Swang (1994) concludes that the high degree of capital investment in respect of public sector enterprises seems to have failed to generate employment opportunities and value added considerably in comparison to private sector. He also pointed out that the private sector enterprises appear to be capable of generating more employment and value added with low capital base compared to the public sector enterprises in India.

32. Atmanand (1994) in his study "productivity and management of state level public enterprises in India" states that manpower is in excess of the standard requirements. As a result, labour productivity has been low in several undertakings as compared to similar industries in the private sector units. Effective labour utilization is generally found to be in the range of 50 percent of the available time.

33. Chalam and Murthy, (1994) have made a study on “the performance of public sector enterprises in India” and they have attributed the poor financial performance to the excessive use of
external sources in their public enterprises capital structure. They have evaluated the effects of heavy external finances on net incomes and on short term liquidity position, in turn affecting the working funds available for successful operation. They have suggested allowing more private equity participation. Increasing the operating efficiency through controlling costs and improving the capacity utilization and factors alike.

34. Gupta (1994) has made a study to find out how the investments in Central Public Enterprises are financed. He has analyzed the role of extra budgetary provisions and the recent prominence of public sector bonds, external commercial borrowings, inter-enterprise borrowings from specialized co-coordinating committees, development funds and such others. He observes that the Government's budgetary support has been declining during the recent past. This has made the enterprises to find sources for themselves on competitive lines.

35. Sunitha K.F, John Nellis and Mary Shiriraj (1994) Privatisation, Lessons from Market Economies, Research observer, vol 11, no 2, July-1994, 242-43. At one time or another since 1945 most countries in the world have attempted to use SOSs (state owned enterprises) to achieve their economic and social objectives. Developing countries typically relied more on SOEs in the hope
that they would balance or replace a week or ideologically unacceptable private sector would invest more and also produce a capital surplus to finance investment. Some SOEs performed and still perform well but good performance tend to be the expectations, evidence from a wide range of continues incidents which shows that SOEs have been economically inefficient and have increased heavy financial loses.

36.R.M Srivastava (1994-95) Corporate Strategic management
"Financial decisions have an important impact on a firms activity, it is so intimately concerned with everything that takes place in the operation of a corporate enterprise. Although financial strategy may seem to be the back bone of corporate planning system. It provides the basic frame work with in which the functional plans of an enterprise are developed .It also serves as an integrating element in the corporate planning system. In fact the very survival of an enterprise is facilitated by a prudent financial strategy"

37.Trivedi, (1995) has made an analysis on working of public sector enterprises to construct a criterion for evaluating their financial performance. While discarding the concept of profitability as traditional criterion on the grounds that this criterion suffers from the problems of accounting limitations. He has suggested a
simple indicator. As per his indicator the performance is a weighted average of labour productivity and the ratio of production to its capacity. Further he has suggested an eight step alternative for evaluating the performance of a uniting public sector.

38. Tiwari Committee Report (1996) "Industrial sickness trends to cause loss of production every often lending to unemployment / loss of employment and resulting in blocking of source, resources of the bankers and financial institutions besides entailing loss of substantial revenue to the exchequer. The magnitude and incidence of industrial sickness is serious. Concurrence for Central and State Government, Reserve Bank of India, banks and financial institutions not merely due to the above factors but also because such a trend undermines public confidence in the functioning of the organized sector with attendant repercussions on the overall investment climate in the economy of the country"

39. RBI notification (1998) “A sick unit is an unhealthy unit to a common man, a dividend postponing unit to an investor, a losing and discouraging unit to an industrialist, a doubt full debtor and week borrower to the creditor and banker, an industrial problem to the government, a victim of technological
changes to techno crates, a bad employer to worker and a great wastage of technical great human resources of the country."

40. John Wiley & Sons Ltd Strategic Management Journal VOL.19 601- 610(1998) this study examines the relationship between corporate strategy and capital structure, specifically the diversification and financial strategies of the firm. The results show that equity financing is preferred for related diversification, and unrelated diversification is associated with debt financing. Additionally firms diversifying through acquisitions are more likely to use public source of financing and those emphasizing internal development of new business depend primarily on private source of financing, using simultaneous equation, we found a reciprocal relationship between a firm’s financial strategy and its corporate diversification strategy. Mode and nature of diversification is reciprocally related".

41. RahuI Koiihar and Michael. (1998) Explored linkage between strategic and financial management. Specifically theory linking characteristics of a firm's diversification strategy to its capital structure was developed and tested. This research responded to the call for integration of finance and strategy research by examining how financial strategies affected by (used to
implement) strategic decisions the result suggests that financial decisions are influenced by firms diversification strategy.

42. Kotharis Industrial Dictionary of India" (1998) "One of the serious problems faced by the industrial sector today is the incidence of sickness which is assuming epidemic proportion during in 1980"s the total numbers of industrial units in the country has considerably increased. There were 2,42,548 sick units at the end December 1998 out of which 240,573 belonging to small scale industries, 1241 to non SSI sector while 770 were said lo belong non SSI weak category".

43. Economic Review (2000) published by State Planning Board states that out of 60 companies functioning under industrial department, only 24 companies are running at profit the rest of them are running at large loss.

44. George Fernandez (2001) the minister of industry stated in the parliament “I do not wanted the government to be scavenger of the private sector. Look at the NTC; the NTC (National Textile Corporation) today has ill textile mills. They were taken over the private sector sucked them dry of all their money and abandoned them and 150000 workers employed in them to their fate. In the eastern states, we have Jessops, Braithwaite Burn
Standing, and Britannica Engineering. Arthur Butter, Gresham and Cravan and others engineering units takeover by the government"

45. G.P Jakhotiya in strategic financial management. (2001) "Strategic financial management refers to both the financial implications and aspects of various business strategies and the strategic management of finance. If a company want to be a blue chip enterprise for an all time investment, it will have to adopt strategic approaches to cost management sales and revenue management, fund raising and fund development and cost benefit analysis of ever prime decisions of expansion, diversification, down-sizing and renovation"

46. P Mohana Rao, Trilok Kumar Jain 2001 "Strategic financial management is a blend of strategy, strategic planning strategic management and financial management ".

47. Business Line (2006) Kerala a study on the problems afflicting PSUs start from here. The new Left Democratic Front (LDF) Government in Kerala will study the problems afflicting public sector units in the State and look for ways to solve them, according to the Industries Minister, Mr Elamaram Karim. At a meet-the-press programme, he noted that Kerala had the largest
number of public sector undertakings in the country. The problems and prospects of the undertakings would be studied on a unit-by-unit basis before deciding on what should be done, he said. Units with potential to perform better will need infusion of funds and the Government will consider launching a special purpose vehicle to mobilize the required funds, the Minister said. He pointed out the State was endowed with rich resources of mineral sand. However, people had fears about their exploitation. The Government will conduct environmental impact studies before taking decisions on sand mining, he said. However, what was important was value addition within the State to protect its interests, he added. Mr Karim said that the Kerala Minerals and Metals Ltd at Chavara in Kollam district and Travancore Titanium Products Ltd in Thiruvananthapuram were undergoing expansion of capacities and diversification of products. There was still scope for further expansion of these units, he added. The Minister said that he was yet to study the problems faced by the manufacturing sector. The manufacturing sector contributed just eight per cent to the State's Domestic Product in 2002-03. Old industrial units were struggling and new ones have not come up in the State, he said. The challenging task for the Government was to revive the manufacturing sector,
in order to provide employment to semi-skilled and unskilled workers, Mr Karim said.

48. G K Nair Business line (2006) his reports says that outdated technology and obsolete machinery in most of the Kerala public sector units (PSUs) have rendered them economically unviable, leading to heavy losses. The accumulated losses of a majority of the PSUs have crossed their total authorized capital. Speaking to Business Line some of the chief executives of the PSUs attributed this scenario to the failure to upgrade the technology and the machineries.

49. Mony K. Mathew Business Line (2007) “Restructuring plans for Kerala PSUs under review”. The State Government's plan for a comprehensive restructuring of the sick public sector undertakings, which have proved a heavy drag on the State's exchequer, appears to be in for a restructuring itself. Though the Enterprises Reforms Committee (ERC), constituted by the Government for the purpose some time ago, has since drafted detailed proposals for each of the enterprises and the Government put its stamp of approval on many of them, the whole exercise may now be subjected to a review.

50. G.K. Nair Business Line (2007) “PSU governance style must change' –A report on the role of governance style in loss making PSU’s in kerala .All State-owned units could be run profitably if
the current styles of management of production, distribution, delivery and finance, etc, are redefined with the knowledge and information currently available and within everybody’s reach. To achieve this, the system of governance in these institutions has to be revamped in view of the globalize outlook of the economy, which has resulted in the emergence of economic and business conditions where competition is rampant, the improvement in efficiency; productivity and competitiveness hold the key for future development.
Reference

1. DP Nayar (August 1980) A study on “Efficiency of State Enterprises Invested in Kerala”.


4. Venkatachalam, (1980) has made a study on “the performance of public sector enterprises especially considering the trends and relative roles of external and internal sources in public sector enterprises covering a period of nineteen years from 1960-61 to 1978-79”.

5. K R.V Singh (1981) has made an exploratory “study on the performance of public enterprises during the period often years ending 1979-80”.


8. M.Srinivasan (1984) has made “a study on some of the recent trends in financing public sector enterprises in India”.

9. SS Sahey (1984) a study conducted on “financial management of Bihar state enterprises”

10. RBI (1985) Notification


12. R.Bagchi. (1986) had made an evaluation on “the role of public sector enterprises in India against the explicit and implicit objectives during the period 1976 and 1985”.


14. C.Chattopadyay (1987) has brought an evaluation work on “the performance of Central Government enterprises” covering a period of 18 year from 1967-70 to 1986-87.


20. (4-9 April 1988) one week seminar on The Karnataka public sector enterprises the committee headed by Kalyan Roy, Institute of Public Enterprises, Hyderabad.


23. Shastri Mehta, (1990) had made a survey on the exiting literature on the working of public sector enterprises during the last three and half decades.

24. UNIDO study (1991)

25. Kapadia (1991) has made a study to find out the contribution of "taken over" units in public sector enterprises.

26. Bhatia (1992) has made a review on different studies relating to "the profitability performance of public enterprises".

27. Bimal jalam (1992) in his article "The Indian economy problems and prospects" New Delhi penguin books (pvt) ltd,Pg 227&228.


29. Ashok kurnar sinha (1993) in his study "Trade unions and production in iron and steel industry in India" Indian journal of commerce vol xivi, part 2.Pg 175.

30. BA Prakash (1994) in his study about Kerala Economy, performance, problemes and prospects New Delhi, sage publications.
31. TLN Swang (1994) "Public and Private Sector Industries in India: a comparative analysis" productivity journal vol 35, Pg 131


33. Chalam and Murthy, (1994) has made a study on “The performance of public sector enterprises in India”

34. Gupta (1994) has made a study to find out how the investments in Central Public Enterprises are financed.


36. R M Srivastava 1994-95 Corporate Strategic management

37. Trivedi, (1995) has made “An analysis on working of public sector enterprises to construct a criterion for evaluating their financial performance while discarding the concept of profitability as traditional criterion on the grounds that this criterion suffers from the problems of accounting limitations, he has suggested a simple indicator”.
38. Tiwari Committee Report (1996) "Industrial sickness"

39. RBI notification 1998


42. Kotharis industrial Dictionary of India" 1998

43. Economic review 2000 published by state planning board

44. George Fernandez (2001) the minister of industry stated in the parliament.

45. G. P Jakhotiya in "strategic financial management" (2001)


47. Business Line (2006) “Kerala to study problems afflicting PSUs” start from here
