CHAPTER -4

PUBLIC SECTOR ENTERPRISES

4.1 Introduction

India has adopted a mixed economy framework, which was specifically declared in the first Industrial Policy Resolution of 1948 itself, consisting of public and private sectors. Industry has played a central role in India’s developmental effort since independence. Agriculture has always been important, given its contribution to employment, output and basic food security, but industry has enjoyed a special position as the sector that would lead India into the modern world, reduce its economic dependence on other countries and generate the higher income needed to alleviate poverty.  

The Government of India has established public sector corporations in various spheres of activity to achieve in their totality the national objectives enunciated in the Industrial Policy Resolutions, the five year plans and the economic programmes announced from time to time. The foremost task before them was to function and adjust the policies of the undertakings under their care to advance the goals of the economic programmes of the country. Public sector in its diverse forms involved in all activities in all sector of economy including industry, agriculture, urban infrastructure and public utility services like health, education, water supply and sanitation, transport and communication.

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4.2 Relevance of Public Enterprises

One of the basic approaches of market economy is emphasis of lending institutions on quick and large profits. This at times results in heavy market fluctuations and occasional failures of industrial enterprises. Liberalization policies in all developing countries, therefore, have necessarily to be determined and implemented in the context of overall growth of their economy with inbuilt mechanisms to deal with such contingencies. Existence and promotion of a competent and responsive public sector in a liberalized economy is not only a contradiction in terms but it provides an effective mechanism to deal with these contingencies.23

Massive investments have been made in the public sector to help it attain the distinction of being at the ‘commanding heights’ in the development of the economy. Public sector in India witnessed a phenomenal growth during the last five decades. They have been providing consumer goods and services and technical, financial and infrastructure facilities for growth of industry, agriculture, transport and communication.

4.3 Objectives of Public Enterprises

The 8th five year plan had clearly stated the objective principles of public sector which provide guidelines for the role which the public sector is to play in the economy. It states as follows;

1. The public sector should make investments only in those areas where investment is of infrastructure nature which is necessary for facilitating growth and development as a whole and where private sector participation is not likely to come forth to an adequate extent within a reasonable time perspective.

2. The public sector may also withdraw from areas where no public purpose is served by its presence. The public sector should come in where the investment is essentially for preservation and augmentation of

23 Luther M M-Public Sector Reforms Myths and Realities page 45
basic resources of the country like land, forest, water and ecology, science and technology or for running key infrastructure activities. The public sector will have responsibility for meeting social needs or for regulating long term interests of the society like population control, health education etc.

3. In the case of large parts of public sector operations where commodities or services are produced and distributed, unless it is necessary for protecting the poorest in the society.

The major objectives of public enterprises could be summarized as follows.

1. To help in the rapid economic growth and industrialization of the country and to create the necessary infrastructure for economic development.

2. To earn a return on investment and thus generate resources for development.

3. To promote redistribution of income and wealth.

4. To create employment opportunities.

5. To promote balanced regional development.

6. To assist the development of small scale and ancillary industries.

7. To promote import substitutions and to save and earn foreign exchange for the economy.

Under the dogma of the socialistic pattern of society, India had practiced a number of restrictions ever since the introduction of the first industrial policy resolution of 1948. Hence it was necessary on the part of the government to withdraw these restrictions to provide conducive conditions of undeterred economic activities when we decided to globalize our economy. Under the process of liberalization, India has moved in that direction by withdrawing some of the impeding restrictions, and introducing certain conditions to ease the cord of restrictions so that business firms and individuals from other countries may be induced to operate their business in India, while Indians can operate abroad.
4.4 Industrial Policies

The government of India set out in their resolution dated April 6, 1948, the policy which they proposed to pursue in the industrial field. The resolution emphasized to the economy of securing a continuous increase in production and it’s equitable distribution and pointed out that the state must play a progressively active role in the development of industries. It laid down that besides arms and ammunition, atomic energy and railway transport, which would be the monopoly of the central government, the state would be exclusively responsible for the establishment of new undertakings in six basic industries—except where in the national interest, the state itself found it necessary to secure the cooperation of private enterprise—though it was made clear that the state would also progressively participate in this field.

The industrial policy resolution of 1948 was followed by the Industrial Policy Resolution of 1956 which had as its objective the acceleration of economic growth and the speeding up of the industrialization as a means of achieving a socialistic pattern of society.

The Industrial Policy statement of 1973 inter alia identified high priority industries where investment from large industrial houses and foreign companies would be permitted.

The industrial policy of 1977 laid emphasis on decentralization and the role of small scale, tiny and cottage industries. The industrial policy resolution of 1980, focused attention on the need for promoting competition in the domestic market, technology upgradation and modernization. The policy laid the foundation for an increasingly competitive export based economy for encouraging foreign investment in high technology areas.

These policies created a climate for rapid growth in the country. The seventh plan recognized the need to consolidate on these strengths and take initiatives to prepare Indian industry to respond effectively to the emerging challenges as can be understood from industrial policy resolution of 1991.
The resolution of 1956 gave the public sector a strategic role in the economy. Massive investments have been made over the past 4 decades to build a public sector that has a commanding role in the economy. Today, key sectors of the economy are dominated by mature public enterprises that have successfully expanded production, opened up new areas of economy and built up a reserve of technical competence in a number of areas.

The priority areas for growth of public enterprises in the future will be the following:

- Essential infrastructure goods and service
- Exploration and exploitation of oil and mineral resources
- Technology development and building of manufacturing capabilities areas which are crucial in the long term development of economy and where private sector investment is inadequate.
- Manufacture of products where strategic considerations predominate such as defence equipments.

The policy of industrial liberalization and deregulation followed since 1991 has resulted in a massive growth of large public sector undertakings. The total capital employed in top 500 corporate giants increased from Rs.139803 crores in 1992-93 to Rs.177415 crores in 1993-94 and further to Rs.234851 crores in 1994-95.

4.5 Public and Private Sector Industries

From independence up to 1991, India followed a policy in which the public sector was to control the commanding heights of the economy and the government acted as a strict controller. Over the years, the Public sector had obtained a dominant position in the critical and key sectors. Apart from its performance the expansion of the Public sector had been on social, political and ideological grounds.
The growth and development of the private sector in India was regulated by the government in a number of ways. It was pointed out in many instances that the dominant role assigned to the public sector in comparison to the private sector in India was one of the reasons for the retarded pace of industrial development. The role of the large industrial houses in private sector was by and large confined to the core and heavy investment sectors.

The new economic policy drastically redefined the roles of the public and private sectors. The role of public sector was confined to areas where investment is of infrastructure nature and private participation was allowed in all the other areas on reasonable terms including protection of consumer interests. Public sector organizations were expected to play specific roles in augmenting basic resource of the country.

In that business environment both the private sector and the public sector got accustomed to the idea of operating in a seller’s market within the country. The reforms of 1991 made significant changes in industrial, trade and public sector policies. The government initiated a programme of structural reforms of the trade, industrial and public sector policies with the objective of evolving an industrial and trade policy framework, which would promote efficiency, reduce the bias in favour of excessive capital intensity and encourage employment oriented pattern of industrialization.

The new policy was aimed at the following:

1. To unshackle the Indian industrial economy from the cobwebs of unnecessary bureaucratic control.
2. To introduce liberalization with a view to integrate the Indian economy with the world economy.
3. To remove restriction on direct foreign investment as also to free the domestic entrepreneur from the restrictions of the MRTP Act and
4. To shed the load of the public enterprises which have shown a very low rate of return or were incurring losses over the years.

Quite a few contradictory views have been expressed in favour of and against Indian economic liberalization/reforms over the past few years. Protagonists of economic reforms policy saw it as the only course left for India’s economic resurgence. On the other hand, critics pointed out that such policy will lead India to the brink of disaster. Amid such divergent views, the Indian industry had to face the realities of the new environment.

### 4.6 History of Public Sector in India

The public sector in India is not entirely a post independence phenomenon. Its history dates back to 1945 when the British Government reviewed India’s post war industrial development and published a white paper which mooted the public sector in India and advocated its growth and expansion for providing propulsion for industrial development in the country.

After independence, consequent to the industrial policy resolution 1948, Government of India promoted public sector industries in areas of basic and strategic importance. Against a small number of public sector enterprise having a meagre investment of Rs.29 crores in 1951 there are 250 Central public sector undertakings with an investment of about Rs.2,30,140 crores in March 1999.

### 4.7 Contributions of Public Sector Industries

The contribution of public sector in India towards economic development has been spectacular. To mention a few;

1. Public sector has paved the way for building an industrial base in the country.
2. It has opened up doors for tremendous employment potentiality.
3. It facilitated the achievement of national objectives like checking concentration of economic power, poverty alleviation, redistribution of wealth etc.
4. It helped in capital formation and resource mobilization.

5. It facilitated technological development, research and development, as well as a thrust for modernization.

6. It made substantial contribution towards India’s exports and import substitution.

7. Public sector’s contribution towards the development of basic, heavy and large scale Industries is tremendous.

8. It facilitated to build up sound infrastructural facilities in India.

9. It safeguards social interests of the various sections of the population.

10. It provides essential services including transport, communication, educational and medical services etc.

11. It helps to check monopoly and restrictive trade practices in India.

12. It has a dominant place in critical areas like steel, coal, copper, zinc, gold, heavy machinery, drugs, chemicals, fertilizers, tourism development, and so on.

13. It helps in developing ancillary industries in India.


Government of India and the state governments have made large investments in public sector enterprises to accelerate the growth of core sectors of economy, to serve the equipment needs of strategically important sectors like Railways, Telecommunications, Nuclear Power, Defence, Roads, Shipping Ports, Heavy Industry, etc. to enable the government to exert its countervailing power on the operation of private monopolies.

Policy on the public sector has been guided by the Industrial Policy Resolution of 1956 which gave the public sector a strategic role in the economy.

**4.8 Disinvestment in Public Enterprises**

Consequent to the new economic policy about 20% of the equity capital of selected profit making public enterprises was sold to mutual funds and financial institutions during the year 1991-92. The first lot of shares was sold at an average price of Rs.27.65 and the second lot at Rs.45.25 per share of Rs.10 each. Rs.3038 crores was collected by government through these two instalments of sale of public enterprises.
4.9 Restructuring of Public Enterprises

As on March 2000 there were 235 central public sector undertakings out of which 127 were profit making and 106 were loss making. 67 central public sector undertakings had eroded their net worth and fallen sick. During the same period there were 946 state public sector undertakings out of which 331 were making losses and 241 were categorized as non-working units.

The central public sector undertakings employed 1.8 million people where as the state public sector undertakings employed approximately 2 million workforce. The central public sector undertakings had an investment of Rs.2,30,140 crores and a turnover of Rs.3,09,994 crores, as on March 1999. The net profit earned by them was Rs.13,234 crores. The investment on state public sector undertakings was about Rs.1,15,000 crores. The performance of state public sector undertakings has been negative compared to central public sector undertakings which earned about 5% profit on their total investment.

The contribution of public sector undertakings to the GDP is 15%. The central public sector undertakings contribute 10% to the GDP whereas the state public sector undertakings contribute 5%.24

The un-satisfactory performance of both central and state public sector undertakings compelled the government to have a re-look at their portfolio and wind up non-strategic, non-core and continuously loss making enterprises.

The central government introduced a number of non-privatization reforms such as introduction of the Memorandum of Understanding (MOU), revamping of the Board of Directors awarding the status of Nava Ratna to mega enterprises and Mini Ratna to medium sized well performing public sector undertakings and deletion of 792 super flows guidelines.25

4.10 Public Sector Enterprises in Kerala

Public sector enterprises in Kerala were designed as instruments of socio-economic development after the formation of Kerala state in 1956. Prior to the formation of state, the Maharajas had established quite a few industries with the intention of industrialization of their province.

Kerala is the state having maximum number of public sector undertakings among all the states in India. Out of the 114 state public sector undertakings, 9

24 Centre for monitoring Indian Economy, Report on Public Undertakings, 2000
have been closed down and are in the winding up process. The balance 105 public sector undertakings are classified into 14 sectors depending upon their field and type of activity as given below.

**Table 4.1:- Classification of public sector undertakings in Kerala.**

<table>
<thead>
<tr>
<th>Sector No.</th>
<th>Sector Classification</th>
<th>No. of SLPEs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Development &amp; Infrastructure Agencies</td>
<td>18</td>
</tr>
<tr>
<td>2</td>
<td>Ceramics &amp; Refractories</td>
<td>3</td>
</tr>
<tr>
<td>3</td>
<td>Chemical Industries</td>
<td>11</td>
</tr>
<tr>
<td>4</td>
<td>Electrical Equipment</td>
<td>5</td>
</tr>
<tr>
<td>5</td>
<td>Electronics</td>
<td>9</td>
</tr>
<tr>
<td>6</td>
<td>Engineering</td>
<td>11</td>
</tr>
<tr>
<td>7</td>
<td>Plantation &amp; Agro Based Units</td>
<td>14</td>
</tr>
<tr>
<td>8</td>
<td>Textiles</td>
<td>4</td>
</tr>
<tr>
<td>9</td>
<td>Wood based industries</td>
<td>3</td>
</tr>
<tr>
<td>10</td>
<td>Traditional industries</td>
<td>7</td>
</tr>
<tr>
<td>11</td>
<td>Trading units</td>
<td>3</td>
</tr>
<tr>
<td>12</td>
<td>Welfare Agencies</td>
<td>9</td>
</tr>
<tr>
<td>13</td>
<td>Public Utilities</td>
<td>6</td>
</tr>
<tr>
<td>14</td>
<td>Others</td>
<td>2</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>105</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: Annual Review of Public Enterprises: Bureau of Public enterprises
4.10.1 Performance Review of State PSEs

The total capital invested in public enterprises in the state of Kerala as on 31\textsuperscript{st} March 1996 was Rs. 6233.38 crores which has risen to 17864.79 by 31\textsuperscript{st} March 2007. The total turnover of all the public enterprises for the financial year 1995-96 was Rs.3056.33 crores which has grown to 10885.37 by 2006-07. During the same period, 34 enterprises have earned profits. The total amount of profit earned by these undertakings in 1995-96 was 7.50 crores which has increased to 500.40 crores by 2007-08.

Of the 114 state enterprises in Kerala, nine enterprises were closed. Of the balance 105 PSEs 16 enterprises were not operational during the year 2007-08. Kerala Hi-tech Industries Limited was handed over to BrahMos Aerospace Limited and the Kerala State Industrial Products Trading Corporation was merged with Travancore Titanium Products Ltd. Kerala Khadi and Village Industries Limited do not follow the commercial form of accounting. The performance of the balance 86 PSEs was reviewed by the Bureau of Public Enterprises in the report for 2007-08.

Sixty seven PSUs in the state are fully owned by the Government, where as 9 are jointly owned by state and central governments and nine are statutory bodies.

Fifty four PSEs are under the control of the Industries Department and 14 are under the Agriculture Department and the balance 35 Industries are controlled by different departments as shown in table 4.2

4.10.2 Budgetary Support for SLPEs

The Budgetary support for the State PSUs by the Government of Kerala has been coming down and has reached the level of .22% in the year 2007-08.
### Table 4.2: Administrative Departments of State PSUs.

<table>
<thead>
<tr>
<th>Sl.No.</th>
<th>Administrative Department</th>
<th>No. of SPSUs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Agriculture</td>
<td>14</td>
</tr>
<tr>
<td>2</td>
<td>Coastal Shipping &amp; Inland Navigation</td>
<td>1</td>
</tr>
<tr>
<td>3</td>
<td>Cultural Affairs</td>
<td>1</td>
</tr>
<tr>
<td>4</td>
<td>Finance</td>
<td>1</td>
</tr>
<tr>
<td>5</td>
<td>Fisheries &amp; Ports</td>
<td>2</td>
</tr>
<tr>
<td>6</td>
<td>Food, Civil Supplies &amp; Consumer Affairs</td>
<td>1</td>
</tr>
<tr>
<td>7</td>
<td>Forests &amp; Wild Life</td>
<td>2</td>
</tr>
<tr>
<td>8</td>
<td>General Administration (Tourism) Department</td>
<td>3</td>
</tr>
<tr>
<td>9</td>
<td>General Education</td>
<td>1</td>
</tr>
<tr>
<td>10</td>
<td>Health &amp; Family Welfare</td>
<td>1</td>
</tr>
<tr>
<td>11</td>
<td>Home</td>
<td>1</td>
</tr>
<tr>
<td>12</td>
<td>Housing</td>
<td>1</td>
</tr>
<tr>
<td>13</td>
<td>Industries</td>
<td>57</td>
</tr>
<tr>
<td>14</td>
<td>Labour &amp; Rehabilitation</td>
<td>2</td>
</tr>
<tr>
<td>15</td>
<td>Local Self Government</td>
<td>2</td>
</tr>
<tr>
<td>16</td>
<td>Power</td>
<td>2</td>
</tr>
<tr>
<td>17</td>
<td>Public works</td>
<td>2</td>
</tr>
<tr>
<td>18</td>
<td>General Administration (Sainik Welfare)</td>
<td>1</td>
</tr>
<tr>
<td>19</td>
<td>SC/ST Development</td>
<td>3</td>
</tr>
<tr>
<td>20</td>
<td>Social Welfare</td>
<td>2</td>
</tr>
<tr>
<td>21</td>
<td>Taxes</td>
<td>2</td>
</tr>
<tr>
<td>22</td>
<td>Transport</td>
<td>2</td>
</tr>
<tr>
<td>23</td>
<td>Water Resources</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>105</strong></td>
</tr>
</tbody>
</table>

Source: Annual Review of Public Enterprises: Bureau of Public enterprises
4.10.3 Investment and Return

The total capital invested in the 86 state public sector enterprises in Kerala covered under the Review as on 31st March 2008 was 6166.33 crores. The total turnover for the financial year 2007-08 was 12334.38 crores. The 54 profit making PSEs generated a total of Rs.500.39 crores as profit and the remaining PSEs reported a total loss of 435.06 crores and the net profit for the year was 65.34 crores.

An overview of the performance of Public Sector industries in Kerala for the last ten years is given in Table 4.3.

4.11 Restructuring of Public Sector Undertakings in Kerala

The policy of government of Kerala on public enterprises makes a clear distinction between restructuring and privatization. The government had chosen restructuring of public sector undertakings for their turn around and better performance and shelved the option to privatize.

The industries department, Government of Kerala has set up a Public Sector Restructuring and Internal Audit Board (RIAB) which is engaged mainly in the performance monitoring, restructuring, monitoring, revival package implementation and development of industry information systems for the public sector enterprises under its Control. The Board was involved in planning, design and implementation of one time intervention for a comprehensive restructuring in ailing PSEs on a case to case basis through capital upgradation, technology modernization, reduction of debt burden, broad basing the sources of finance and organizational changes.
Table 4.3 AN OVERVIEW OF PERFORMANCE OF PUBLIC ENTERPRISES IN KERALA FOR THE LAST TEN YEARS

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of units</th>
<th>Total Employment</th>
<th>Paid up Capital</th>
<th>Capital Invested</th>
<th>Units on Profit</th>
<th>Unit on Loss</th>
<th>No. of Units</th>
<th>Amount (crores)</th>
<th>No. of Units</th>
<th>Amount (crores)</th>
<th>Net annual Profit/Loss (+/-)</th>
<th>Dividend Declared</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>No. of Units</td>
</tr>
<tr>
<td>1998-99</td>
<td>2</td>
<td>273</td>
<td>1433.21</td>
<td>4824.62</td>
<td>42</td>
<td>168.20</td>
<td>48</td>
<td>157.96</td>
<td>10.24</td>
<td>14</td>
<td>7.5</td>
<td>11</td>
</tr>
<tr>
<td>2000-01</td>
<td>4</td>
<td>251</td>
<td>1311.78</td>
<td>3496.12</td>
<td>38</td>
<td>222.67</td>
<td>33</td>
<td>186.73</td>
<td>36.94</td>
<td>11</td>
<td>6.45</td>
<td>13</td>
</tr>
<tr>
<td>2001-02</td>
<td>5</td>
<td>300</td>
<td>1380.88</td>
<td>3820.75</td>
<td>32</td>
<td>235.85</td>
<td>60</td>
<td>288.67</td>
<td>-52.82</td>
<td>11</td>
<td>3.89</td>
<td>15</td>
</tr>
<tr>
<td>2002-03</td>
<td>6</td>
<td>350</td>
<td>2481.24</td>
<td>4716.71</td>
<td>31</td>
<td>203.50</td>
<td>51</td>
<td>232.15</td>
<td>-28.65</td>
<td>14</td>
<td>6.13</td>
<td>17</td>
</tr>
<tr>
<td>2003-04</td>
<td>7</td>
<td>400</td>
<td>1491.35</td>
<td>5790.41</td>
<td>38</td>
<td>194.56</td>
<td>45</td>
<td>244.15</td>
<td>-49.60</td>
<td>12</td>
<td>12.82</td>
<td>19</td>
</tr>
<tr>
<td>2004-05</td>
<td>8</td>
<td>450</td>
<td>1525.12</td>
<td>5982.14</td>
<td>37</td>
<td>186.83</td>
<td>45</td>
<td>229.62</td>
<td>-42.79</td>
<td>14</td>
<td>14.07</td>
<td>21</td>
</tr>
<tr>
<td>2005-06</td>
<td>9</td>
<td>500</td>
<td>1561.79</td>
<td>6220.10</td>
<td>29</td>
<td>208.55</td>
<td>52</td>
<td>231.93</td>
<td>-23.40</td>
<td>12</td>
<td>11.01</td>
<td>23</td>
</tr>
<tr>
<td>2006-07</td>
<td>10</td>
<td>550</td>
<td>1595.45</td>
<td>6203.54</td>
<td>45</td>
<td>296.37</td>
<td>36</td>
<td>87.59</td>
<td>208.80</td>
<td>13</td>
<td>21.47</td>
<td>25</td>
</tr>
<tr>
<td>2007-08</td>
<td>11</td>
<td>600</td>
<td>1649.43</td>
<td>6747.11</td>
<td>51</td>
<td>282.21</td>
<td>28</td>
<td>62.49</td>
<td>219.72</td>
<td>14</td>
<td>19.50</td>
<td>27</td>
</tr>
</tbody>
</table>
4.12 Competitiveness of PSUs in Kerala

The influence of the changed business environment and the strategies adopted by the different companies and the impact of the same on the performance of these companies were of interest to the researcher. Hence this study was taken up to assess and analyze the competitiveness of Industries in Kerala based on the different strategies adopted by them to survive in the liberalized economic environment in the country. It was decided to limit the study to the public enterprises in Kerala for the following reasons.

1. Kerala is having the maximum PSEs
2. Similarities in management policies, capabilities, business philosophy etc., since all of them are controlled by the Government of Kerala.
3. The easy availability and access to data regarding various performance parameters.
4. The relevance of success in PSUs in the overall economy of the State.

The 114 Public Enterprises in Kerala is classified into 14 categories by the State Bureau of Public enterprises for the purpose of annual review. Since the categories vary from development and infrastructure to chemicals, engineering, electrical, plantation, traditional, welfare agencies etc., it was found not advisable to compare the different categories of industries. The comparative study of different categories was all the more difficult, since the business challenges to which they are open varies on the basis of different factors like level of competition, market variations, their basic organizational objectives etc. Hence it was decided to limit the study to the competitiveness of public enterprises in Kerala coming under the chemical sector.

4.13 Chemical Industries in Kerala

The total capital invested in the public enterprises in chemical sector was Rs.251.04 crores, in 1995-96 which was 1.41% of the total capital invested in the state public undertakings whereas in the financial year 2007-08 the investment in chemical sector was 25039 lakhs which was 1.42% of the total
investment. The PSEs in chemical sector in Kerala employs 5778 persons which accounts for 5.39% of the total employment in public enterprises in Kerala. The overall details regarding financial status, including capital invested, net worth, profit, contribution to exchequer etc. in respect of these chemical units for the last three years is given in table 4.4

**Table 4.4 Data on public enterprises in Chemical Sector in Kerala**

<table>
<thead>
<tr>
<th>No.</th>
<th>Indicators</th>
<th>Unit</th>
<th>2005-06</th>
<th>2006-07</th>
<th>2007-08</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>No. of Units</td>
<td>No.</td>
<td>11</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>2</td>
<td>No. of Employees</td>
<td>No.</td>
<td>5240</td>
<td>5600</td>
<td>5778</td>
</tr>
<tr>
<td>3</td>
<td>Paid up share capital</td>
<td>Rs.Lakhs</td>
<td>9458.29</td>
<td>9546.29</td>
<td>9546.29</td>
</tr>
<tr>
<td>4</td>
<td>Capital invested</td>
<td>Rs.Lakhs</td>
<td>24648.11</td>
<td>25148.02</td>
<td>25039.2</td>
</tr>
<tr>
<td>5</td>
<td>Net worth</td>
<td>Rs.Lakhs</td>
<td>50873.45</td>
<td>53256.19</td>
<td>55995.99</td>
</tr>
<tr>
<td>6</td>
<td>Capital employed</td>
<td>Rs.Lakhs</td>
<td>65817.77</td>
<td>68592.92</td>
<td>71223.9</td>
</tr>
<tr>
<td>7</td>
<td>Working capital</td>
<td>Rs.Lakhs</td>
<td>32005.67</td>
<td>25778.2</td>
<td>26323.78</td>
</tr>
<tr>
<td>8</td>
<td>Turnover</td>
<td>Rs.Lakhs</td>
<td>84947.41</td>
<td>88034.43</td>
<td>86211.11</td>
</tr>
<tr>
<td>9</td>
<td>Profit(+) / Loss(-)</td>
<td>Rs.Lakhs</td>
<td>581.2</td>
<td>3837.61</td>
<td>3851.22</td>
</tr>
<tr>
<td>10</td>
<td>No. of loss making units</td>
<td>No.</td>
<td>4</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>11</td>
<td>Amount of loss</td>
<td>Rs.Lakhs</td>
<td>2613.07</td>
<td>1099.99</td>
<td>1368.36</td>
</tr>
<tr>
<td>12</td>
<td>No. of profit making Units</td>
<td>No.</td>
<td>4</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>13</td>
<td>Amount of Profit</td>
<td>Rs.Lakhs</td>
<td>3194.27</td>
<td>4937.54</td>
<td>5219.58</td>
</tr>
<tr>
<td>14</td>
<td>No. of Units with cash loss</td>
<td>No.</td>
<td>4</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>15</td>
<td>Amount of cash loss</td>
<td>Rs.Lakhs</td>
<td>2426.64</td>
<td>792.28</td>
<td>1205.01</td>
</tr>
</tbody>
</table>

Source: Annual Review of Public Enterprises: Bureau of Public enterprises

**4.14 Performance of PSUs in Kerala**

The primary data regarding the performance of these undertakings and the strategic responses adopted by them were collected through questionnaires
circulated among the Senior Executives of the selected companies. Data was also collected through personal and telephonic interviews. Secondary data was collected from the Annual Review Reports of Public Enterprises in Kerala published by The Bureau of Public Enterprises for the period 1996-97 onwards. The data for the above period was relayed on the assumption that the companies must have stabilized in their new strategies consequent to the liberalization policy introduced by the Government of India during the period 1991-92 at least after a period of 5 years.

As per the Annual Review Reports of Public Enterprises in Kerala the performance of the PSEs in Kerala were fluctuating from profit to loss from 1996-07 to 2007-08.

During the financial year 2000-2001, one Public sector undertaking earned profit against loss during the previous year whereas eight enterprises incurred losses during the year 2000-2001.

During the financial year 2001-2002, seven corporations earned profits against losses during the previous year, whereas four other enterprises which had earned profits during 2001-2002 incurred losses in 2002-2003.

During the year 2002-2003, three public sector undertakings reported profits against losses during the previous year namely the Plantation Corporation of Kerala Ltd., Forest Industries Travancore Ltd., and Kerala Industrial Infrastructure Development Corporation Ltd.

The above fluctuating performance of different Public sector undertakings in the State is one of the reasons for selecting this study to analyze and understand the various parameters that influenced the performance of the State Public Sector Undertakings.

Based on the literature study taken up by the researcher on the impact of liberalization of the Indian economy and the strategic responses adopted by various industries in India and based on the inputs obtained through personal discussions with a wide spectrum of company officials including chief executives, senior managers, trade union leaders, industrialists etc., on the
strategic responses generally adopted by them, the following factors were identified as most relevant.

4.15 Competitive Factors

1 Technology
   a) Technology up gradation and modernization.
   b) Introduction of new products or diversification.
   c) Capacity utilization.

2 Productivity Factors
   a) Improvements in machine or labour productivity
   b) Productivity Agreements

3 Information Technology
   a) Use of information technology tools
   b) Extent of computerisation

4 Research and Development
   a) Research and development efforts.
   b) Innovations and initiatives

5 Manpower Restructuring
   a) Reorganisation of Manpower
   b) Implementation of VRS
   c) Involvement of Employees

6 Marketing Strategies
   a) Focus on marketing efforts
   b) Direct marketing Attempts

4.16 Technological Environment

History has shown that modern economic growth has been inspired by a rapid and persistent up gradation of technology and scientific knowledge. It is
estimated that one-third to one-half of the growth experienced by the industrially advanced countries has come from technological process.

Technology is one of the important determinants for the success of a firm as well as the economic and social development of a nation. According to the UNCTAD’s draft TOT Code, technology should be described as “Systematic knowledge for the manufacture of a product, for the application of a process or for the rendering of a service and does not extend transactions involving mere sale or lease of goods.” The type of technology used by a manufacturer, the frequency of upgradation of the same and the speed with which new technologies are adopted and implemented and the competence to select the most appropriate technology are major factors that will contribute to the performance of a manufacturing organisation.

Technology is defined as the process of transformation of inputs into goods and services and technological development essentially means the changes occurring in the transformation process.

4.17 Capacity utilisation

The Reserve Bank has estimated in its report on Currency and Finance (2000-01) that the capacity utilization level in Indian manufacturing went down to 76% during 1995-00 from 91% in 1990-95 and 88% in 1985-90. The study covered five industrial sectors namely textiles, metal products, machinery and transport equipments, chemicals and leather products.

4.18 Productivity Factors

Sustainable competitiveness of an industry stems from its productivity - how efficiently the industry applies itself to the factors of production. There is no alternative to raising productivity levels if an economy, industry or firm has to maintain its competitiveness. Apart from the importance of raising productivity to measure up to global competitors, productivity has acquired significance in the Indian continent as well. The analysis of productivity growth by industrial sector provides an important tool for assessing how individual activities
contribute to changing structure of dynamic economy. Tatom (1979) observed that labour cost constitutes an important share of the total cost of production and increased labour productivity may lead to lower unit cost of outputs, which in turn provides incentives for firms to increase production and leads to either lower output prices or higher wages for employees or both.

There are mainly two types of productivity measures generally—partial productivity measures and total productivity factors. Labour productivity and capital productivity are the partial productivity factors. Total factor productivity is intended as a measure of the efficiency of a productive process or a production unit. It is related to the idea of the capacity to produce.

Labour productivity may be defined as the output per unit of labour. The productivity levels of Indian workers are compared to be much inferior to his counterparts in other industrially advanced countries.

In order to be competitive in a global market, the productivity norms are also to be balanced with global standards. By enhancing its productivity, an industry could gain competence; but it does so faster than its competitors to achieve competitiveness.

Based on a study conducted for the Reserve Bank of India, Pushpa Trivedi who led the team for the study felt that the most important policy implication of the study lies in the need to provide incentives for improving labour productivity. She said “if labour productivity is to rise then, perhaps productivity linked incentives in the labour market will have to be experimented with.”

### 4.19 Information Technology

The use of Information technology as a tool in different fields of business will add to the competitiveness of a firm for faster and accurate response to business challenges. Tools and techniques for gathering and using information constitute the core of information technology. The fusion of computer technology and communications technology has resulted in the present day...

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26 As quoted by Sunil Kumar (2001) in page 7 of “Productivity and Factor Substitution”
27 Future of Indian Manufacturing ET Knowledge Series page 42
information technology which has completely revolutionised how information is gathered, communicated, analysed and understood. Computer technology has dramatically shrunk the time required for doing a piece of work by enabling the user to locate the required information from anywhere sitting at his workplace.

Revolutionary changes in information technology have been sweeping across the global business. Networking and high speed computers have modified the way in which business activities are organized. Electronic markets will eliminate the need for intermediaries and their direct contact between the manufacturer and customer will bring down the cost of transaction and the cost of the product. The use of email for international communication, the utilization of internet for gathering extensive and up to date information and the use of e-commerce for widening the customer base are all applications of the IT tools which will enable the organisation for an upper hand in a competitive market.

4.20 Innovations

Economics of innovations has grown rapidly in the last part of the twentieth century around a problematic core; the puzzle of total factors productivity growth. The continual growth of output and efficiency experienced in most countries since industrialisation cannot be explained only in terms of an increase of inputs used in the production process. The introduction of innovations and new technologies play a major role in changing the efficiency of use of inputs and hence output levels as per unit of input.  

4.21 Conclusion

Historically public sector undertakings have played an important part in the development of the Indian industry. At the time of independence it was felt that political independence without economic self reliance would be detrimental to the country’s sovereignty and autonomy in policy making. Hence the Public Sector Industries were promoted with the objectives of building infrastructure, creating employment opportunities, substituting imports and to reduce concentration of private economic power. However, after the initial exuberance of the Public Sector entering new areas of industrial and technical competence, a number of problems began to manifest themselves in many enterprises.

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These problems and other economic compulsions led to the adoption of a new approach towards the public sector. In July 1991 the Government issued a statement on Industrial Policy\textsuperscript{29} which had the following decisions.

a) Portfolio of Public Sector investments will be reviewed with a view to focus the Public Sector on strategic, high-tech, and essential infrastructure. Whereas some reservation for the Public Sector is being retained, there would be no bar for areas of exclusivity to be opened up to the Private Sector selectively. Similarly the Public Sector will also be allowed entry in areas not reserved for it.

b) Public Enterprises which are chronically sick and which are unlikely to be turned around will, for the formulation of revival/rehabilitation scheme, be referred to the Board for Industrial and Financial Reconstruction (BIFR), or other similar high level institutions created for the purpose. A social security mechanism will be created to protect the interest of workers likely to be affected by such rehabilitation packages.

c) In order to raise resources and encourage wider public participation, a part of the Governments shareholding in the Public Sector could be offered to Mutual Funds, financial institutions, general public and workers.

d) Boards of Public Sector companies would be made more professional and given greater powers. There will be a greater thrust on performance improvement through the Memorandum Of understanding (MoU) system through which management would be granted greater autonomy and will be held accountable. Technical expertise on the part of the Government would be upgraded to make the MoU negotiation and implementation more effective.

e) To facilitate fuller discussion on performance, the MoU signed between the Government and the Public Enterprises could be placed in Parliament. While focusing on major management issues, this would also help place matters on day to day operations of Public Enterprises in their correct perspective.

\textsuperscript{29} Statement on Industrial Policy, Government of India, Ministry of Industry dated July 24, 1991
The disinvestment Commission has also observed that the Public Sector in India continues to be an important component of the Indian industry even after liberalization unlike the experience in many other countries which went in for wholesale privatization. Therefore, the Commission reiterated that the Public Sector Enterprises in general must be managed on sound commercial lines and must generate adequate surpluses and make contribution commensurate with the quantum of public resources invested in them.

The Public Sector in India is attempting to reinvent itself ever since the Economic Liberalization Policy was implemented by the Government of India. In order to inject competition and make the economy vibrant and dynamic almost all sectors reserved for the Public Sector has been opened up. The impact of the new policy decisions on the performance of the Public Sector Enterprises is debatable.

The competitive strength of the Public Sector Enterprises to emerge as successful business enterprises in the new economic order and their capability to survive in the unprotected environment is a subject of academic interest. The identification of the specific strategies followed by the successful Public Sector Enterprises could be replicated by others for making them turn around and survive in the liberalised economy.

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