

Pros and cons of privatization of vsnl (videsh sanchar nigam ltd.)

[Business](#)



What is VSNL

Initially VSNL was established to deal with overseas communications, and was functioning under the Department of Telecom, government of India. The company provides connections to over 400 mobile operators all around in the world. It is also the main provider of signaling conversion services to enable GSM roaming to and from North America.

Videsh Sanchar Nigam Ltd. (VSNL) was one of the first Public Sector Undertaking Company that was privatised by handing over to Tata Group for Rs. 1439 crores in 2002. The Tatas formerly kept 25% equity stake in VSNL and by handing over the cheque of 1439 crore to the contemporary Union Minister for Parliamentary Affairs, Information Technology and Communications, Mr. Pramod Mahajan and took over the total control on VSNL.

Change of Name and the Board of Directors

The name of the company has also been changed to Tata Communications Limited (TCL). The Tatas can now have a new team of directors on VSNL's reconstituted board. Those already aboard include Mr Ratan Tata as VSNL's non-executive Chairman, Mr S. K. Gupta, reaffirmed as VSNL's Managing Director and Mr. N. Srinath, CEO, Tata Internet, who joins as Executive Director.

Agreement between Tatas and the Govt

On the time when sell deed was finalised an agreement was prepared that was known as "*Share Purchase and Share Holder Agreement*" between the <https://assignbuster.com/pros-and-cons-of-privatization-of-vsnl-videsh-sanchar-nigam-ltd/>

Government and the Tatas. As per this agreement, the workers were assured that their services will continue as usual and the company will not go for retrenchment. The employees will continue to get all the benefits. But TCL couldn't follow the agreement and certain types of oppressions were being felt by the employees. On the time of privatisation there were more than 2600 employees but many of them has left the job by taking voluntary retirement.

Pros and Cons of Privatization of VSNL

Apart from the privatization of VSNL into TCL, we should explore about the pros and cons in the privatization of VSNL. Can it flourish to be a successful company in the field of telecommunication? Did the employees continued to receive all their benefits? Was the management liberal with them? Has the service improved? Lot of questions will arrive into our mind. To find the answer let us peep into the present and try to find out the advantages and disadvantages of the privatization.

Pros of Privatization of VSNL

- Better management: Due to privatization, the management of the company had been changed. Better qualified energetic management staff had given a new shape to the company where sky was the limit. New 7, 000 skilled employees were recruited. The company is now able to expand its business in the overseas countries. The company provides long range of services and has a strong presence in domestic Pan-India services. The company provides its services in operating landing stations and undersea cables. The company has more than 415 direct and bilateral ties with leading international service providers.

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The company provides more than 17 billion minutes of international voice traffic per year.

- Profit motive: After privatization the TCL started running behind profit making. Tata communications network has been spread over more than 500, 000 km of subsea fibre and more than 210, 000 km of terrestrial fibre. The company has invested \$1. 19 billion in its international subsea fibre network. The company is listed as one of AON Hewitt's Best Employers in India for 2017. Tata Communications headquartered is in Pune and is listed on the Bombay Stock Exchange and the National Stock Exchange of India. It also holds a stake on its Sri Lankan subsidiaries, Tata Communications, Srilanka. It delivers network services and software such as Ethernet, SD-WAN, Content delivery network, Internet, Multiprotocol Label Switching and Private Line.
- Better customer service: Now the TataCommunicationLimited expanded its presence in more than 200 countries and territories around the world. It started providing better services to their customers by the largest owned and most advanced subsea fibre network of its kind, touching over 400 million people. Its network carries around 30% of the world's internet routes and connects its business to 60% of the world's cloud giants. VSNL extended its global reach to over 240 countries. It is said that Network of TCL has so vast area that it connect 4 out of 5 cell-phone subscribers in the world.
- New investments in VSNL (Now TATA Communications): In 2009, Tata Communications has invested in the TGN-Intra Asia cable system with

the collaboration of Tyco Telecommunications. The company has invested \$1.19 billion in its global subsea fibre network. In 2012, the company completed its network across Egypt linking Europe to India. The company has more than 15 terabits of international band-width lit capacity. In January 2016, TCL was benefited by the announcement of Windstream Communications that it had been extending its 100 Gigabit Ethernet network from New Jersey data center and is estimated to be the hub for 70 percent of the world's Internet traffic.

- Burden of management on Govt. is decreased: As a PSU Videsh Sanchar Nigam Limited was running in loss and was a part of Telecommunication department of India, and it was difficult for the government to handle it properly. Hence govt. had taken decision to hand over it to a private sector company. Tata Group of Companies had already 25% stakes in VSNL; hence the contemporary Indian govt. had decided to hand over VSNL to Tatas. After taking the control of VSNL, TCL has started to retrench the previous incompetent and lazy staff and manage the company according to its rules and conditions. The liability of the staff is now with TCL that releases the burden from the Indian govt.

Cons of Privatization of VSNL

- Lack of service motive: After taking the full charge of the company Tata Communication limited had started torturing the former employees and recruiting the fresh skilled staff. The former worker's privileges were cut down and they were forced to resign. The newly appointed staff was paid according to their talent and work, and the

working hours had also been increased. The company is now indulged in making more profit by announcing lucrative plans but the benefit of the consumer is being neglected.

- Government no longer receives profits: Since the control over the company is in hands of TCL therefore profit and loss incurred is the matter of TCL. At initial stage of privatization 46% of the stakes was in the hand of govt. and the public but after 2008 Tatas had took total over the company. The share of profit was devoured by the govt. but taking the total control over the company by Tatas, now profit and loss had become the issues of the company. After revival the company started gaining profit by investing money and had broadened the field but it does not help in govt.'s revenue. Hence govt. has no longer received the profit.
- Decrease quality of service due to greater profit incentives: Tata Communication Limited has expanded its business that made a heavy traffic load on the network. It made congestion in the network. To earn more profit the attention on quality has been decreased and the consumers have to face a lot of difficulties in their network. Also the speed of its Internet service is also become poor and cause of worries for the people.
- Rise in the price for the service: Since the control of the Government is no more on the VSNL so the company has fixed its own rate of services that were not in the reach of common users. To earn more profit the rates were hiked at the condition put by the company. Whereas, the

govt. had made rule under TRAI to control the rates but the service providers have many other ways to gain.

Conclusion

We have seen that the privatization of VSNL showed the mixed effect. Videsh Sanchar Nigam Limited was a sick unit for the govt. and the workers and trade unions were not cooperating with the govt. Thus it was handed over to its prime stake holder the Tatas. Tatas had brought certain changes and now the company has become a profit making company.

Although it retrenched its old staff that has become unfortunate for them but it provided the new openings for the new generation. The company provides better communication to the people at a higher cost but it is become fruitful as the income of the individual has also been increased with the development.