

# Performance of pse in india assignment



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CONTENTS PREFACE BACKGROUND: PRE INDEPENDENCE STATUS AND POST INDEPENDENCE PHILOSOPHY THE GOVERNMENT INTERFACE Department of Heavy Industry Department of Public Enterprises BPRSE SCOPE EVOLUTION OF PUBLIC SECTOR POLICY IN INDIA 1947-1991: Growth of PSEs 1991 Onwards: Decline of Public Investment and Disinvestment Present Public Sector Policy of the Government Disinvestment PERFORMANCE OF STATE-OWNED ENTERPRISES IN INDIA Salient Trends In PSEs Rise In Per Capita Emoluments Capital expenditure increases in public sector Decline In MoU Rating Summary Performance 2008-09 ISSUES AND CHALLENGES BEING FACED BY CPSES

Key Issues Affecting Performance Way forward CONCLUSION PREFACE “ The State will progressively assume predominance and direct responsibility for setting up new industrial undertakings and for developing transport facilities. ” -Industrial Policy Resolution 1956. At time of India’s independence the architects who were taking on journey of restoring India to its formers heights of glory believed that the only way to move forward for the country was to move in the Socialist pattern of self reliance. This direction which is also called the Nehruvian model based itself on the theory of the state’s responsibility to set up industrial ndertakings and assume the role of leader in the industrialisation process. This was the genesis of the emergence of State owned enterprises. The Industrial Policy Resolution of 1948 was the first step in the process and thereon it has been a constant process of the state. More than 60 years on the story is now reaching an important milestone where in the state is now trying to restrict itself to the least required. In this assignment I shall endeavour to highlight the evolution of

the PSE's in India and the major policies which have been the creator of this sector.

I shall then look at the Government's machinery which is responsible for the coordination and management of the Public Sector in India. I shall also talk about the performances of PSE's post reform process. Let us briefly look at the objectives that are looked at for setting up PSE's The objectives of public sector enterprises may be divided into three categories: Economic objectives

i. Economic development - Public enterprises are established to accelerate the rate or economic growth, by setting up key and basic industries like iron and steel, petroleum, power generation, chemicals, machine building, etc.

The public sector provides an essential base for faster economic growth of the country. Expansion of capital goods industries lead to the development of other industries. ii. Planned growth - The private sector neglects the industries with long gestation periods and low rate of returns. Public enterprises step in to fill up gaps in the industrial structure by setting up industries which are economically unattractive, but nationally essential.

Public sector provides infrastructural facilities for diversified and balanced growth. ii. Balanced regional development - Public sector concerns are designed to facilitate the growth of backward regions so as to reduce

regional disparities in industrial growth. iv. Generation of surplus - Public enterprises are expected to generate and distribute surplus for financing five-year plans and other schemes of public welfare. v. Provide employment

- One of the important objectives of public enterprises is to reduce the unemployment by creating employment opportunities. 2. Social objectives i.

Control monopoly - Sometimes, public enterprises seek to check private monopoly and restrictive practices and the resulting evils like exploitation. ii. Equitable distribution of wealth - Public enterprises are expected to reduce disparities in the distribution of income and wealth. Reduction of economic disparities is one of the objectives of our constitution and public enterprises are helpful in checking concentration of economic power. iii. Provision of essential goods and services - An important objective of public undertakings is to provide essential goods and services for consumption at reasonable prices.

This helps in improving the standard of living of the people. Social control over industry ensures equitable distribution of commodities and helps to protect the consumer from exploitation by greedy businessmen. iv. Takeover of sick units - Closure of sick units may result in loss of employment to a large number of people and wastage of national resources. Public enterprises like the National Textile Corporation was set up to nationalise such units and to make them healthy and profitable. Public enterprises also facilitate the groups of small-scale industries. 3. Political objectives i.

Public interest - Public enterprises are established in the interest of the country as a whole. India has become an industrial power because of the development of public sector concerns. They facilitate self-reliance in strategic sectors. ii. National defence - Public enterprises are set up for the manufacture of arms, ammunition, telecommunications, oil, etc. , which are essential for the safety and security of the country. iii. Socialism - Public enterprises are required to future the political ideology of the Government as well as to serve the constitutional objectives of socialistic pattern of society.

OVERVIEW OF PUBLIC SECTOR ENTERPRISES IN INDIA Background 1. In India, before independence, there was almost no 'Public Sector' in the economy. The only worthy instances were the Railways, the Posts and Telegraphs, the Port Trust, the Ordnance and the Aircraft factories and few Government managed undertakings like the Government salt factories, quinine factories etc. After independence and with the advent of planning, India opted for the dominance of the public sector, firmly believing that political independence without economic self-reliance was not good for the country.

The passage of Industrial Policy Resolution of 1956 and adoption of the socialist pattern of the society led to a deliberate enlargement of our public sector. It was believed that a dominant public sector would reduce the inequality of income and wealth, and advance the general prosperity of the nation. The planners also seemed to believe that by placing the management and workers in public enterprises in a position of responsibility and trust, they would be so imbued with a sense of the public good that their actions and aspirations would naturally reflect what was best for the country.

The main objectives for setting up the Public Sector Enterprises as stated in the Industrial Policy Resolution of 1956 were: (a) To help in the rapid economic growth and industrialization of the country and create the necessary infrastructure for economic development. (b) To earn return on investment and thus generate resources for development. (c) To promote redistribution of income and wealth. (d) To create employment opportunities (e) To promote balanced regional development. (f) To assist the development of small-scale and ancillary industries; and (g) To promote import substitutions, save and earn foreign exchange for the economy. . In

tune with the widespread belief at that time, the 2nd Five Year Plan stated very clearly that “ the adoption of socialist pattern of society as the national objective, as well as the need for planned and rapid development, require that all industries of basic and strategic importance, or in the nature of public utility services, should be in the public sector. Other industries, which are essential and require investment on a scale, which only the state, in the present circumstances, could provide, have also to be in the public sector.

The state had, therefore, to assume direct responsibility for the future development of industries over a wider area”. THE GOVERNMENT INTERFACE

3. In India, the Ministry of Heavy Industries & Public Enterprises is responsible for the development and growth of capital goods and engineering industry in the country, framing of policy guidelines for Central Public Sector Enterprises (CPSEs) and administratively dealing with CPSEs. The Ministry is under the charge of Cabinet Minister for Heavy Industries and Public Enterprises. He is supported by the Minister of State for Heavy Industries and Public Enterprises.

The Ministry comprises of the following two Departments: (a) Department of Heavy Industry (b) Department of Public Enterprises. Department of Heavy Industry 4. The Department of Heavy Industry is concerned with the development of the engineering industry viz. machine tool industry, heavy electrical industry, industrial machinery and auto industry and administers 48 CPSEs. The industries covered by this Department provide goods and services for almost all sectors of the economy, including power, railways, transport, capital goods etc.

The Ministry also looks after the machine building industry and caters to the requirements of equipment for basic industries such as steel, non-ferrous metals, fertilizers, refineries, petrochemicals, shipping, paper, cement, sugar, etc. The Department supports the development of a wide range of intermediate engineering products like castings, forgings, diesel engines, industrial gears and gear boxes. The Department also administers: (a) NATRIP (National Automotive Testing and R & D Infrastructure Project) National Automotive Testing Implementation Society (NATIS), b) Fluid Control Research Institute, Palakkad, (c) Automotive Research Association of India (ARAI), and (d) Forging Industry Research Institute of India. 5. The Department maintains a constant dialogue with various Industry Associations and encourages initiatives for the growth of industry. The Department also assists the industry in achievement of their growth plans through policy initiatives, suitable interventions for restructuring of tariffs and trade, promotion of technological collaboration, up-gradation, and research & development, etc. 6.

The CPSEs under the Department are engaged in manufacture of engineering/capital goods, consultancy and contracting services. The enterprises under the Department produce a wide range of products ranging from machine tools, industrial machinery, boilers, gas/steam/hydro turbines, turbo generators, electrical equipment, and railway traction equipment, pressure vessels, AC locomotives, prime movers, and agricultural tractors, consumer products such as watches, paper, tyres and salt. Sector-wise Classification of the Industry by the DHI are as follows: a) General (b) Mining (c) Quarrying (d) Manufacturing (e) Electricity 7. The same are then further

divided into the following 19 industrial sub-sectors: (a) Boilers (b) Cement Machinery (c) Dairy Machinery (d) Electrical Furnace (e) Freight Containers (f) Material Handling Equipment (g) Metallurgical Machinery (h) Mining Machinery (i) Machine Tools (j) Oil Field Equipment (k) Printing Machinery (l) Pulp and Paper Machinery (m) Rubber Machinery (n) Switchgear and Control Gear (o) Shunting Locomotives (p) Sugar Machinery (q) Turbines & Generator sets r) Transformers (s) Textile Machinery Department of Public Enterprises (DPE) 8. In the 52nd Report of the Estimates Committee of 3rd Lok Sabha (1962-67) stressed the need for setting up a centralized coordinating unit, which could also make continuous appraisal of the performance of public enterprises. This led to the setting up of the Bureau of Public Enterprises (BPE) in 1965. Consequent to the reorganization of the Ministries/Department of the Union Government in September, 1985 the BPE was made part of the Ministry of Industry.

In May 1990, the BPE was made a full-fledged Department and is now known as the Department of Public Enterprises (DPE). Presently, it is part of the Ministry of Heavy Industries & Public Enterprises. The Department of Public Enterprises is the nodal department for all Central Public Sector Enterprises (CPSEs) and formulates policy pertaining to the role of CPSEs in the economy as also in laying down policy guidelines for performance improvement (and evaluation), autonomy and financial delegation, personnel management and other related areas.

It also collects, evaluates and maintains information on several areas in respect of CPSEs. The DPE is also the interface between the administrative Ministries and the CPSEs. Other Prominent Agencies 9. BPRSE. Board for

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Reconstruction of Public Sector Enterprises (BRPSE) was established in December 2004 as a part time advisory body to advise the Government on the strategies, measures and schemes related to strengthening, modernizing, reviving and restructuring of public sector enterprises.

The mandate of BRPSE are as follows: (a) To advise the Government on ways and means for strengthening public sector enterprises in general and making them more autonomous and professional; (b) To consider restructuring - financial, organizational and business (including diversification, joint ventures, seeking strategic partners, merger and acquisition) - of CPSEs and suggest ways and means for funding such schemes; (c) To examine the proposals of the administrative Ministries for revival/ restructuring of sick/loss making CPSEs for their turnaround; d) To advise the Government on disinvestments/closure/sale in full or part, in respect of chronically sick/loss making companies which cannot be revived. In respect of such unviable companies the Board would also advise the Government about sources of fund including sale of surplus assets of the enterprise for the payment of all legitimate dues and compensation to workers and other costs of closure; (e) To monitor incipient sickness in CPSEs; and (f) To advise the Government on such other matters as may be assigned to it by the Government from time to time.

0. SCOPE: Standing Committee on Public Enterprises. Standing Conference of Public Enterprises (SCOPE) is the apex body of Central Government owned Public Enterprises. SCOPE has all the Central Public Enterprises, a few State Government Enterprises and some nationalised banks as its members. A registered society called " NEW HORIZON" was set up in New Delhi on September 29,

1970, with the basic objective of promoting “ better understanding among the public about the individual and collective contribution of public sector. ”

11. The role of Scope briefly is as under: a) Enhancing standards of Corporate Governance and Corporate Social Responsibility in PSEs to the best prevalent practices in the world. (b) Sharing knowledge with international bodies like OECD, ILO etc. to benchmark standards of governance. Also organizing interaction between international/government delegations and PSEs. (c) Developing effective leaders to meet ever increasing requirement of public enterprises. (d) Interfacing with the government, regulatory bodies and policy makers for creating favourable policies and a regulatory framework to safeguard the interests of public enterprises and improve their competitiveness. e) Networking with professional institutes of repute to identify and organize programmes of high quality on topical issues. (f) Recognizing significant achievements of public enterprises in various fields, leading to business excellence and competitive advantage; motivating them to achieve higher goals of excellence; and, rewarding those who have demonstrated extraordinary skills and have made a mark in chosen field. (g) Representing as the Employers’ Organizations of Indian Public Enterprises at National and International fora in order to make them better place to work. h) Showcasing performance, contribution and achievements of PSEs in order to improve their image. (i) Empowering women employees of PSEs and creating gender sensitivity among employees. EVOLUTION OF PUBLIC SECTOR POLICY IN INDIA 1947-1991:

Growth of PSEs 12. The Indian government passed the Industrial Policy Resolution 1948 that outlined the importance of the economy and its continuous growth in production and equitable distribution. In this process,

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the policy envisaged active engagement of the State in development of industries.

The resolution stipulated that in addition to arms and ammunition, atomic energy and railway transport, which continued to be government monopoly, the State would exclusively be responsible for establishment of new enterprises in six basic industries - except the industries where in the national interest, private sector participation and cooperation could be allowed. 13. The public sector in India assumed a strategic role in the Indian economy after the introduction of the Industrial Policy Resolution 1956.

The public sector was built over massive investments over the past five decades. Enterprises that came into existence under this regime expanded their production successfully, explored newer areas of technology and build reserves of technological competence in number of areas. Moreover, after the initial investments by the government in important infrastructure areas, public enterprises expanded to all areas of the economy, which included non-infrastructure areas and non-core areas. 14.

The Industrial Resolution Policy 1956 also classified industries into three categories with respect to the role played by the State; the first category included industries whose future development would be the exclusive responsibility of the State; the second category included enterprises whose initiative of development would principally be driven by the State, but private participation would be allowed to supplement the efforts of the State, and the third category included the remaining industries, which would be left to the private sector.

In 1969, the government nationalised 14 major banks. 15. The Industrial Licensing Policy 1970 placed certain restrictions on undertakings belonging to large industrial houses defined on the basis of assets exceeding Rs 350 Mn. In 1973, the definition of large industrial houses was adopted in conformity with that of the Monopolies and Restrictive Trade Practices Act (MRTPA) 1969 and included companies whose assets exceeded Rs 200 Mn. This move intended to provide the government more effective control on concentration of economic power. 16.

The Industrial Policy 1977 provided greater interaction between agriculture and industrial sectors. The Industrial Policy Statement of July 1980 spelt out major policy initiatives such as optimum utilisation of installed capacity, correction of regional imbalances, high employment generation, promotion of economic federalism, and more importantly, focused on reviving efficiency of public sector enterprises through a time-bound programme of corrective action on a unit-by-unit basis. 17. The next major policy initiated by the government was the announcement of the Statement on Industrial Policy in July 1991.

This statement consisted of the following strategic decisions: a. The entire portfolio of investments made in the public sector was to be reviewed with an aim to focus on sectors of strategic importance, sectors that were technologically advanced and essential infrastructure sectors. b.

Reservations were retained for the public sector to a certain extent, albeit, without any restraint on area of exclusivity to be opened up selectively to the private sector. c. The public sector was allowed entry into areas in which no reservations were made for it. . Sick public enterprises that are unlikely to

be turned around were referred to the Board for Industrial and Financial Reconstruction (BIFR) and other such institutions that were created for the same purpose. e. Interest of workers likely to be affected by rehabilitation packages were kept in mind through social security mechanisms created for this purpose alone. f. Greater thrust was laid on performance improvement through MoUs signed between the government and enterprises. g. The boards of these enterprises were given wider powers. 18.

The above statement of Industrial Policy brought in fundamental changes in the MRTP Act as well. From 17 industries exclusively reserved for the State in 1956, the statement in 1991 revised the priority of the public sector to four major areas - essential infrastructure goods and services, exploration and exploitation of oil and mineral resources, technology development and building of manufacturing capabilities in areas that are crucial for long-term development of the economy and where private sector investment is inadequate, and manufacturing products where strategic considerations predominate, such as defence equipment.

At the commencement of the First 5-year plan (April 1951), there were five public sector enterprises with an investment of Rs 290 Mn that rose to 246 with an investment of Rs 1, 354 Bn by the end of the Eighth 5-year plan (April 1992) period. The era after 1991 is also called the post reform period and as with many sectors marked the beginning of new era in the PSEs. 1991 Onwards: Decline of Public Investment and Disinvestment 19. The administrative machinery through which public sector plans are implemented has been continuously changing over the years.

Performance-related incentives, establishment of special purpose societies and agencies, and establishment of companies mandated to perform special functions, are all elements of the plan implementation machinery that did not exist earlier. At the same time, some organisations that were earlier part of the public sector may have moved out of the public sector on account of privatisation as in the case with a few enterprises, both at the Centre and in the states. 20.

The share of public investment in the country's total investments declined over successive Plan periods - from almost 35% in the Eighth Plan to 29% in the Ninth Plan, to 22% in the 10th Plan. As per the Planning Commission, the share was expected to stabilise in the 11th Plan at the 10th Plan level; however, these rates of investments require to be supported by a buoyant domestic savings rate of around 35%. The 11th plan also envisaged a dominant role of public policy across various sectors.

These sectors included agriculture and rural development; education and skill development; health and nutrition; infrastructure development and the energy sector. Public sector enterprises at the Central government level had been allocated resources worth Rs 21, 565. 7 Bn with state governments and Union territories have been allocated Rs 14, 881. 5 Bn of resources for the 11th Plan period. Present Public Sector Policy of the Government 21. The UPA government's National Common Minimum Programme (NCMP) envisaged a strong and effective public sector.

It laid great emphasis on turning around sick and loss making CPSEs.

Accordingly, a Board for Reconstruction of Public Sector Enterprises (BRPSE)

was set up (December, 2004), under the administrative charge of the Department of Public Enterprises, to consider inter-alia, revival/restructuring proposals of sick/loss making CPSEs and make suitable recommendations related thereto. The Govt. also pledged to devolve full managerial and commercial autonomy to successful, profit-making companies operating in a competitive environment.

Generally profit-making companies were not going to be considered for privatisation. All privatisation is being considered on a transparent and consultative case-by-case basis. The Govt aims to retain the existing “Navratna” companies in the public sector while these companies raise resources from the capital market. While every effort is being made to modernise and restructure sick public sector companies and revive sick industry, chronically loss-making companies will either be sold-off or closed. The Govt. is to induct private industry to turn-around companies that have potential for revival. 2. The Govt. believes that privatisation should increase competition, not decrease it. It will not support the emergence of any monopoly that only restricts competition. It also believes that there must be a direct link between privatisation and social needs, for example, the use of privatisation revenues for designated social sector schemes. Public sector companies and nationalized banks will be encouraged to enter the capital market to raise resources and offer new investment avenues to retail investors. Disinvestment While the case for economic reforms may take good note of the diagnosis that India has too much government interference in some fields, it ignores the fact that India also has insufficient and ineffective government activity in many other fields, including basic

education, health care, social security, land reforms and the promotion of social change. This inertia, too, contributes to the persistence of widespread deprivation, economic stagnation and social inequality. ”

- Amartya Sen & Jean Dreze 23.

As seen above, for almost four decades the country was pursuing a path of development in which public sector was expected to be the engine of growth. However, the public sector had overgrown itself and their shortcomings started manifesting in the shape of low capacity utilization and low efficiency due to over manning, poor work ethics, over capitalization due to substantial time and cost overruns, inability to innovate, take quick and timely decisions and large interference in decision making process etc. 4. Additionally, the continued existence of the PSEs was forcing the Government to commit further resources for the sustenance of many non-viable PSEs. The Government continued to expose the taxpayers' money to risk, which it could readily avoid. To top it all, there is a huge amount of debt overhang, which needs to be serviced and reduced before money is available to invest in infrastructure. All this made Disinvestment of the Government stake in the PSEs absolutely imperative. 25.

The Government started to deregulate the areas of its operation and subsequently, the disinvestment in Public Sector Enterprises (PSEs) was announced. The process of deregulation was aimed at enlarging competition and allowing new firms to enter the markets. The market was thus opened up to domestic entrepreneurs / industrialists and norms for entry of foreign capital were liberalized. 26. Another cornerstone of the case for privatization



was the concept that private ownership led to better use of resources and their more efficient allocation.

Throughout the world, the preference for market economy received a boost after it was realised that the State could no longer meet the growing demands of the economy and the State shareholding inevitably had to come down. The 'State in business' argument thus lost out and also the presumption that direct and comprehensive control over the economic life of citizens from the Central government can deliver results better than those of a more liberal system that directly responds according to the market driven forces. 27. Thus as a measure to address the above issues the Department of Disinvestment was set up vide Notification No.

CD/551/99 dated 10. 12. 1999 and was assigned the following work: (a) All matters relating to disinvestment of Central Government equity from Central Public Sector Undertakings. (b) Decisions on the recommendations of the Disinvestment Commission on the modalities of disinvestment, including restructuring. (c) Implementation of disinvestment decisions, including appointment of advisers, pricing of shares, and other terms and conditions of disinvestment. (d) Disinvestment Commission. 28. The primary objectives for privatizing the PSEs were as follows : a) Releasing the large amount of public resources locked up in non-strategic PSEs, for redeployment in areas that are much higher on social priority, such as, public health, family welfare, primary education and social and essential infrastructure; (b) stemming further outflow of these scarce public resources for sustaining the unviable non-strategic PSEs (c) Reducing the public debt that is threatening to assume unmanageable proportions, (d) Transferring the commercial risk, to <https://assignbuster.com/performance-of-pse-in-india-assignment/>

which the tax-payers' money locked up in the public sector is exposed, to the private sector wherever the private sector is willing and able to step in - the money that is deployed in the PSEs is really the public money; and, is exposed to an entirely avoidable and needless risk, in most cases. (e) Releasing other tangible and intangible resources, such as, large manpower currently locked up in managing the PSEs, and their time and energy, for redeployment in areas that are much higher on the social priority but are short of such resources. | Performance of State-Owned Enterprises In India 29.

In the background of economic reforms and a competitive business environment, the Indian public sector has been recording sustained growth in business along with a significant improvement in performance. A study conducted by the World Bank in 2005 to assess the post-reform competitive performance of state-owned enterprises in India has drawn certain interesting results. The sample included 25 state-owned enterprises and 582 private companies operating in the manufacturing sector. The comparisons were drawn over the period 1992-2005. (a) Return on assets (ROA) of private sector firms remained more than that of their state counterparts. The ROA of state enterprises started becoming negative after 1995 and remained negative till 2005. b) Efficiency of state enterprises calculated as value of output over production costs, although positive, remained below that of private companies during this period. (c) Indirect taxes were the single-largest business costs for private companies followed by expenses on salary during the above period. On the other hand, for state-owned enterprises, marketing costs were the highest costs during the earlier years and these

costs declined during the latter part of the period. (d) The performance of all companies deteriorated over time with respect to efficiency, ROA, and return on sales. However, they performed their best on all three measures during 1993-1996, with their performance worsening during 1997-2000 and 2001-2005.

Central PSEs (CPSEs) on the whole registered a strong performance during the Tenth 5-year plan (2002-2007). The numbers of profit-making CPSEs went up while the number of loss-making ones reduced. Granting complete autonomy to CPSEs remains an unfinished agenda before the government.

**SALIENT TRENDS IN PSEs Rise In Per Capita Emoluments 30.** The Department of Public Enterprises (DPE) advises the administrative ministries/departments and CPSEs in matters relating to the wage policy and revision in pay scales of executives. CPSEs follow the Industrial Dearness Allowance (IDA) pattern pay scales with the Central Dearness Allowance (CDA) pattern in certain cases.

The government policy relating to pay scales and pay pattern is that all employees of the CPSEs should be on IDA pattern and related scales of pay.

31. Gross emoluments of CPSE employees increased from Rs 4, 150 Mn in FY72 to an impressive Rs 123. 11 Bn in FY92, and further rose to Rs 525. 8 Bn in FY07. Per capita emoluments of such employees grew at a CAGR of 12% between FY72 and FY92. Again between FY93 and FY07, such emoluments registered a CAGR of 13. 3%. A rise in the emoluments indicates the massive increase in employment and income generated by CPSEs over three decades. Capital expenditure increases in public sector 32. The

importance of the public sector is reflective of the capital expenditure expended for various growth and developmental activities.

In India, the public sector has witnessed a healthy and robust increase in capital expenditure across various sectors, primarily energy. Sectors that saw substantial expenditure included agriculture and allied service; rural development and special area programmes; irrigation and flood control; energy; industry and minerals; transport; education, including medical education and health. Planned outlay in the public sector almost doubled from Rs 2, 102, 030 Mn in FY03 to Rs 4, 412, 850 in FY07. Investment in infrastructure in the public sector, at both the Centre and state levels, was 4. 2% of the country's GDP. As per Planning Commission estimates, the same is expected to be 6. 4% of the GDP by FY12. Public Sector Savings Surge 33.

Public sector savings, which consist of savings of government departments/enterprises (both Centre and state) contributed substantially to the country's overall savings. In FY07, total Gross Domestic Savings (GDS) of the country stood at 34. 8% of GDP up from 23. 6% in FY03. While, PSU savings to the GDP rose up to 4% from 3. 3% during the same period. However, if government administrative departments are considered, public sector saving indicators reported a negative figure till FY03. Furthermore, post FY03, these indicators turned positive largely due to several policy initiatives undertaken by the government to improve the performance of PSUs. Decline In MoU Rating 34.

The MoU, which is a negotiated document between the government and the enterprise that specifies objectives of the agreement and obligations of both

parties, was designed to grant greater autonomy to CPSEs. Under the MoU system, performance evaluations are based on the annual targets agreed upon between the government and the CPSE. The performance of CPSEs, who have signed the respective MoUs, is evaluated at the end of the year based on achievements of the mutually-agreed targets. During FY07, 94 CPSEs signed MoUs with the government, while 19 could not submit MoU performance evaluation reports for the above period. Additionally, 143 CPSEs signed MoUs with the government for FY08.

Based on the performance, the companies are graded on a five-point scale, namely excellent, very good, good, fair and poor. The performance evaluation is broken into financial and non-financial parameters and both carry equal weights. Non-financial parameters are further sub-divided into dynamic parameters, enterprise-specific parameters and sector-specific parameters. The financial parameters generally relate to profit, size and productivity, the dynamic parameters refer to project implementation, investment in R&D and extent of globalisation. 35. Similarly, while the sector-specific parameters refer to macroeconomic factors like change in demand and supply, price fluctuations, variation in interest rates, etc, which are beyond the control of the management, the nterprise-specific parameters relate to issues such as safety and pollution, etc. 36. The number of CPSEs that were awarded excellent ratings reduced from 54 in FY04 to 45 in FY07. The organisations that were awarded poor ratings increased from two in FY03 to 94 in FY07. Summary Performance 2008-09 37. There were 242 Central Public Sector Enterprises (CPSEs) under the administrative control of various Ministries / Departments as on 31. 3. 2008. Out these 242

CPSEs, 214 have been in operation and 28 CPSEs have yet to commence business. (a) Out of 214 operating CPSEs from which information has been received, while 160 CPSEs have shown profit during 2007-08, 53 CPSEs incurred losses during the year.

In case of one CPSE, namely, Food Corporation of India (FCI), the Profit / Loss is 'NIL' as the procurement and issue price of food grains is fixed by the Government of India and the difference between the economic cost and price realization is reimbursed by the Government as subsidy. (b) The cumulative investment (paid up capital plus long terms loans), which was Rs. 29 crore in 5 enterprises as on 31. 3. 1951, has gone up to Rs. 4, 55, 409 crore in 242 CPSEs as on 31. 3. 2008. While the increase in 'investment' in all the CPSEs went up by 8. 31% in 2007-08 over 2006-07, the increase in 'capital employed' went up by 15. 61% during the same period (Table 1). A great deal of investment in CPSEs is being made through internal resources, that is, without any budgetary support. (c) The 'net profit' of profit making CPSEs (160) was Rs. 91, 083 crore in 2007-08.

The 'net loss' of loss making enterprises (53) stood at Rs. 11274 crore during the year; this includes accounting losses of closed units like Fertilizer Corporation of India (Rs. 1505 crore), Hindustan Fertilizer Corporation (Rs. 1102 crore) and losses (Rs. 2226 crore) on account of formation of a new company namely National Aviation Company of India Ltd. (by merging Air India Ltd. and Indian Airlines Ltd. (d) The CPSEs have to serve macro-economic objectives besides financial objective. The Food Corporation of India (FCI) and Artificial Limbs Manufacturing Corporation of India (ALIMCO)

etc. are CPSEs that have been laying greater emphasis on non-financial / social objectives.

The year was also witness to severe financial under-recoveries by public sector Oil Marketing Companies (OMCs) on sale of petroleum products in order to keep the prices low in the domestic market. Issues and challenges being faced by CPSEs 38. Public sector enterprises in India have responded admirably post-economic reforms and liberalisation. Not only did they expand production and profit levels but also became an important choice of investment for global and domestic investors. Market capitalisation of the public sector enterprises in India constitutes a major portion of the total market capitalisation and several PSEs attract huge investor interest.

These enterprises are growing in size and stature, competing with the major competitors in domestic and international markets, by focusing on business growth and diversification as also profitability and productivity. In future, the CPSEs will garner enough opportunities and will enhance their scope of strategy, apart from building their competitiveness through strong and proactive leadership, effective management, and efficient processes that govern business planning and development, and management of resources. Key Issues Affecting Performance 39. One of the key issues behind low key performances by the PSEs in managing their business effectively has been lack of needed autonomy, even on routine operational matters.

While the Navratna/Miniratna scheme has granted them empowerment in some measure, it hasn't yielded much on the ground and much remains to be desired even today. Without the required empowerment, which is

essential to function even as a quasi-commercial enterprise, an effective mechanism for ensuring accountability could also not be put in place. For, accountability would be meaningful only when the respective domains of the Government and the PSE are clearly defined and sufficient powers are provided to be exercised by the PSEs. Minus the required autonomy or accountability, public sector enterprises in India have shown signs of inefficient performance. 40.

The other major problem with regard to PSE performance has been multiple and unclear objectives. The performance of any commercial enterprise is closely linked to the objectives set for it. In case of PSEs there happen to be a multitude of stated and unstated objectives, emanating from various quarters, which are often not in conformity with each other. In fact, till 1987-88 which was when the MoU system was introduced for select PSEs, there was little clarity on the objectives which PSEs are to strive for? Added to this were the multiplicity of control structures and interference in their operational decision making. The result was a diffused set of goals without a proper performance evaluation mechanism.

Therefore investment choices made by them were sub-optimal, resources tended to be allocated to non-core activities, and it became difficult to mobilize human resource towards accountable performance. 41. Unlike a private concern which enjoys considerable autonomy in its business issues and is guided mainly by the objective of profit maximization, PSEs are required to attain several social, economic and other extraneous objectives which may not have any correlation with their performance or business. If the objectives do not have any correlation with their performance or



business, if the objectives are not purely commercial, can the yardstick of performance be purely based on profits earned?

The performance of PSEs, therefore, needs to be judged keeping in mind both the explicit constraints faced by them with reference to the objectives set for them. 42. Notwithstanding the above, organizational inefficiencies did creep into the PSEs over a period of time. Coupled with bureaucratic procedures and processes, there was no incentive attached to taking quick and effective decisions. This resulted in propagation of poor work ethics and lack of managerial accountability amongst the PSE managers. 43. In recent years, the implications of corporate governance seem to have increased to significant proportions. Corporate governance includes policies and procedures adopted by a corporate entity in achieving its objectives with relation to its stakeholders, both internal and external.

In the Indian context also, corporate governance is a major challenge for CPSEs, especially in terms of the number of independent directors that are required as per listing agreement norms. The Securities Exchange Board of India, for instance, in its review of compliance of the listing guidelines, named a few leading public sector enterprises for not fulfilling requirements about the number of independent directors. Way forward 44. The issues with regard to public sector in India are vexed indeed and there may not be any easy solutions to their problems. What is quite apparent, however, is that PSEs continue to have a strong and fundamental relevance to the Indian economy.

This is as true today as it would be in the times to come. The concept of state ownership in commercial undertakings will not lose its relevance even in a market-oriented economy, as proved by the recent developments worldwide. Specifically in India, PSEs will continue to have a crucial role to play in achieving the socio-economic aspirations of our masses. In the emerging global economic order, we must, therefore, aim to derive the maximum from these war-horses to the benefit of the country and a large number of stakeholders. A starting point could be to put in place good governance practices through choosing proper composition and structure for PSE Boards in listed as well as unlisted enterprises.

The competence and ability of the Board in discharging its duties depends upon making the right selection keeping in mind the expertise or experience needed in specific PSEs. However, the present selection system is not the most effective or efficient in selection of top personnel for PSE Boards. The selection of full-time or part-time Directors needs to be made more merit-based and transparent since that will change a lot in how the enterprise is governed. The role of Government Directors may also have to be clearly spelt out. 42. While Government nominees will continue to play an important role in the Board of PSEs on strategic matters, separation of ownership and management must be exercised as far as practical. Ownership should not transgress into the managerial domain.

There should be a balance between autonomy and state control. Functional autonomy is essential for good performance and there should be suitable guidelines on the areas in which the Board must seek prior government approval and where it may take a decision on its own. The tendency to get

involved in actual management of PSEs needs to be resisted by the Government. A policy of selective government intervention in the management of PSEs is bound to not only get greater acceptance but also deliver effective results. 43. The importance of clear and defined deliverables for PSEs within an overall objective-setting framework cannot be overemphasized.

Commercial and non-commercial objectives may be distinguished and clear instructions formulated for role-clarity. Some internal restructuring of under-performing PSEs may also be required to bring them at par with national benchmarks. Managerial autonomy and accountability must be introduced in their performance systems. Suitable international comparisons, wherever applicable, of the management of State Owned Enterprises worldwide may be replicated. These measures will enable PSEs to compete successfully in a market-driven environment. 44. As regards the issue of accountability, in their role as guardians or trustees of public money, PSEs need to be accountable to the Parliament and the people.

This is a legitimate requirement which is an outcome of being a public enterprise functioning in a democratic set-up. At the same time, the degree of operational autonomy under which the PSEs operate needs to be enhanced. One recent example that comes to mind is the wage revision and fixation exercise carried out by the Government. This is one area which needs to be delegated to the respective PSEs within some broad guidelines, especially in those which are well performing in competitive or regulated industries. There cannot be one-size-fits-all approach for compensation of

PSE managers since they operate in diverse sectors with different levels of competition and salary structures. 45.

We must make an attempt to strengthen the healthy PSEs which are already making valuable contributions to the economy. Progressively listing a greater number of such PSEs on the bourses to unlock the value represented by them deserves serious consideration. Disinvestment and sale of PSEs is no panacea as advocated by some, since poor performance in case of certain PSEs has been due to a large number of variables, some of which are beyond their ambit. A better option, instead, would be selective disinvestment, primarily in loss-making enterprises, keeping in mind the nature of the industry - whether it requires presence of the state, strategic importance of the PSE, and success obtained in past efforts at improving performance amongst others. Conclusion 46.

The public sector in India has so far facilitated the nation to move forward in its long march towards prosperity for all. To move ahead further in this journey, PSEs must brace themselves to meet the changing global environment. They must benchmark themselves with the best in the world, adopt efficient and agile processes and systems, embrace new technology and take to new ways of doing business by adopting tested management tools. They need to be as nimble as small players while having effective decision making systems in place. Today, the requirements of the country, the challenges facing us and the role played by the PSEs therein have assumed new and bigger dimensions. PSEs have for long played a vital role in the development of the economy.

The Government, on its part, must enable them to do what is necessary for achieving this in the future as well. As the thought-leader of the PSEs, SCOPE is determined to take all measures necessary and provide an effective platform to support our collective endeavours towards a stronger and developed India. References 1. [www. dnb. co. in/universitiesofindia](http://www.dnb.co.in/universitiesofindia) 2. [www. wikipedia. co. in](http://www.wikipedia.co.in) 3. Department of Public Enterprises [dpe. nic. in/... /Chapter-1-Overview%20&%20Profile\\_Final](http://dpe.nic.in/.../Chapter-1-Overview%20&%20Profile_Final) 4. Ministry of Heavy Industries and Public Enterprises Annual Report 08-09 [http://dhi. nic. in/dhi0809eng. pdf](http://dhi.nic.in/dhi0809eng.pdf) 5. Standing Conference on Public Enterprises (SCOPE) “ Introduction to Public Enterprises [http://www. scopeonline. in/sinf. htm](http://www.scopeonline.in/sinf.htm)