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AN OVERVIEW OF REFORMS AND SUSTAINABILITY OF INDIAN PUBLIC SECTOR ENTERPRISES

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ABSTRACT

The resurgent India is the combination of both Planning process and Public Sector Enterprises which played an instrumental role in transforming the country into vibrant nation pugnacious with political instability with conflicting opinions of policy makers. The independent India through industrial policy resolution derived the concept of Central and state Public sector enterprises categorized into Maharatna, Navaratna and miniratna based on their performance. The paper attempts to focus on various issues pertaining to PSEs once known to be temples of modern India, now struggling for their sustainability either through self- obligation or through disinvestment.

KEYWORDS: Sustainability, Disinvestment, CPSE and Planning Process

INTRODUCTION

Pandit Jawaharlal Nehru sought to promote the industrialization of India, not via the capitalist route but by the centralized planning as according to him, the state cannot be discharged by capitalist entrepreneurs. He believed that 'plan' is a self-consistent, scientific statement of the vision for development while the public sector is an instrument for implementation of the plan. The two are complementing to each other and derive significance from their joint endeavors to achieve the development objectives. Nehru spoke at length about his vision of India. He talked glowingly about the new state owned companies, calling them the 'temples of modern India' an expression which draws applause from his audience. Since there were few resources in the private sector, only the government could make these huge investments. At the same time he explained, he wanted to preserve democratic freedoms; he did not want India a communist society like Russia and China. Thus, he called his system a 'mixed economy', which would combine the best of socialism and capitalism. The industrial policy resolution of 1948, the first major pronouncement of the new government of the nation's future direction, reflected all the pulls and pressure of the times. The ingredients of manufacturing policy were constituted in the evolution of policy in four areas i.e. Industrial policy, Foreign Direct Investment policy, Trade policy and Public Sector policy. In a way a platform of regulatory regime was established in order to facilitate the rampant industrial growth vis-à-vis economy. While stressing progressively greater participation of the state in economic activities, the document recognized the role played by private capital in the industrial expansion of the country and assured it of a significant place in future endeavors directed to the nation's economic development, though within a framework of regulation and control. Under the new policy, the state would have exclusive right to establish new undertakings in certain specified fields, pertaining primarily to basic industries, but the private sector was left free to operate in the remaining spheres. Admittedly, the state was not expressly debarred from participating in the residual fields as well, but in view of the fact that the task of accelerating the pace of development was stupendous, the state was expected to concentrate on developing mainly such industries that required relatively large outlay and in which private enterprise was unable or unwilling to invest.

The government of India played an instrumental role to become an entrepreneur apart from the governance and laid down the genesis of Central Public sector enterprise (henceforth, referred to as PSEs). In these enterprises, the Central Government holding in paid up share capital is more than 50%. The concept was welcomed and thought provocative considering the poor industrialisation of the country. The intention behind propagating such enterprises was economic growth of the country which involves huge capital probably which could not be warranted by the capitalist class termed to be an old money managing the private enterprises.

The Public Sector Enterprises have been playing an overriding and exclusive role in industrial growth and development of Indian economy. To check the host of problems of unemployment, poverty, regional imbalances, Technological backwardness which the country missed due to successive waves of industrial revolution, the foundation of the PSE were laid down to meet the above mentioned problems vital for the economic prospects of the country after an alien rule of almost 200 years.

However the pro-business reforms of 1980’s and pro-market reforms of 1991 have raised the question of sustainability of majority of the CPSE’s due to becoming uncompetitive. The primary reason was the working of PSE in a much protective environment enacted in the Industrial (Development & Regulation) Act, 1951 and Industrial Policy Resolution of 1956.

PURPOSE AND SIGNIFICANCE OF CPSUS

The founding fathers of our republic used the public sector as an essential and vibrant element in the building-up of India’s economy. CPSUs were key catalysts in undertaking economic activity strategically important for the growth of the country, which, if left to private initiative, would distort the national objectives. The various purposes of establishing and encouraging CPSUs are:-

- To provide adequate infrastructure to the country for the rampant industrialization.
- To provide essential basic goods needed for the ingestion of the masses.
- To maintain price stability considering the income inequality of the country.
- To retain and carry forward the interest of large number of workers of various sick industries transformed to government ownership at the eve of independence.
- To avoid concentration of economic power in a few hands
- To exercise social control and regulation of long-term finance through public financial institutions.
- To promote and ensure that regions were established in a composed manner by providing adequate infrastructure and diversifying economic activity in less developed areas
- To attain self-reliance in different technologies through development of capacity for design and development of machinery, equipment and instruments and elimination of dependence of foreign agencies
- Increase foreign exchange reserves by promoting import substitutions
- To supplement the growth of small scale enterprises.

- To check the monopoly of private sector by sustaining a self-reliance through development of technology.
- To avoid and circumvent the limitations and abuses of the private sector and
- to generate forces of economics and technological self-reliance
- It is difficult to think of the Indian economy without public enterprises given India's socio-economic and demographic reality. The sector is enmeshed in the common man's life. The various significance of Public sector is:-
- Since their inception, public enterprises have played an important role in achieving the objective of economic growth with social justice.
- Public sector undertakings are the country’s single largest employer in organized sector
- The rural sector of India is heavily dependent on chemical and fertilizer industry PSE with the subsidy they offer for farming.
- CPSUs have contributed to the government of India programme of developing small and medium scale industries by fostering the growth of ancillary industries. There is a strong base of ancillary industries at several centres such as the Bokaro steel Limited, the Bhilai Steel Plant, Hindustan Machine Tools at Bangalore, units of Bharat Heavy Electrical at Bhopal, Hyderabad and Hardwar etc.
- CPSUs are frontrunners to undertake community development initiatives and to bring all-inclusive development of the region in which they are functioning. SAIL has taken initiative to develop 79 villages across eight states as ‘Model Steel Villages’ for providing medical & education facilities, roads, sanitation, income generation schemes.

LITERATURE REVIEW

(Das, 2009) Enumerates the performance of the Indian economy in the context of its growth rate acceleration He emphasizes that sluggish and tardy reform implementation is one of the serious bottlenecks. In 2008, myriads of domestic and global factors coalesced to drive GDP growth rate sharply down. He infers that the growth spurt of the Indian economy is unsustainable. Sustainability of high growth momentum is regarded as a serious challenge. Unlike that in China, the Implementation of economic reform in India was tardy and slow. Bureaucratic incompetence, foot-dragging and powerful vested interests, political wrangling, and constants disagreements were among the principal causal factors.

(Chris, 2010) Suggests that public sector compensation is becoming a high-profile policy issue While private sector wages and benefits have stagnated during the recession, many governments continue to increase compensation for public sector workers. At the same time, there are growing concerns about huge underfunding in public sector retirement plans across the nation.

Business Monitor International (BMI) **(Report, 2010)**states that overcapacity inventories are major downside risks for Indian petrochemicals producers. Despite increased global supply, the domestic market will find difficult to prevent price volatility. Although India’s economic recovery could be rocky in the short term, the mean real GDP growth over the next 10 years is forecasted at 7.6 % compared with 7.2% in the previous 10 years. This should sustain demand for petrochemicals and ensure that India remains a net importer over the long term. The main down side for the Indian petrochemicals industry is the massive increase in global capacities, which will push down prices at a time of rising feedstock costs, thereby putting pressure on petrochemicals margins.

Further, the report states that the product mix is favourable to the development of an export-oriented petrochemicals industry in the context of global market patterns. Another factor in favour of Indian producer, as opposed to foreign imports, is the immediacy of supply.

(Gouri, 1997) Observes that privatization in India is low. Privatization for ownership transfer is limited to the disinvestment of public sector enterprises (PSEs) for raising non-inflationary resources. At the same time, there is a gradual withdrawal of budgetary support from PSEs resulting in a gradual dilution of equity as enterprises tap the capital market. Simultaneously, economic liberalization policies have emphasized a level playing field for the public sector. In terms of economic management, and more so public sector management, there is lack of a comprehensive policy on privatization.

(Mathur B. , 2001) In his article entitled "Is Privatization Inevitable in India?" provides a brief background of conditions leading to privatization of public enterprises, narrates the progress of privatization of public enter prises since 1991, examine the measures initiated by the government to revamp the privatization programme and offers an alternative framework for privatization of public enterprises in India.

(Ganesh, 2001) Has discussed about the pros and cons of privatization. To accomplish the objective of "privatization in India," proper competitive law administered by establishing Competition Commission is essential to evade dominance, prevention of lobbies, and control over consolidation. A coercive policy definition is required to be constructed by the Regulatory bodies governing and keeping a watch over the market dynamics.

(**Mathur B. , 2002**)In his article entitled "Privatization Need for a Policy Framework". Noted that there is hardly any justification for selling profitable oil companies or shipping corporation which have strategic importance for the national economy as their control may pass on to multinationals. He stressed that some nations are even waging wars to secure control over global oil resources as the recent Iraq conflict has shown.

(B Singh, 2005) State about the utility and process of disinvestment in India According to them disinvestment leads to cost effectiveness and increase in operating profit. The overall growth in economic condition of the country through disinvestment leads to investment and growth which increases employment and also attract foreign institutional investors. The study also finds the reason of defects in public sector enterprises such as poor management, dearth of autonomy, financial resources, excess manpower and obsolete technology and low productivity having inefficient staff support. Moreover the PSEs are over burden with government obligations of social welfare which erodes the motive of commercial obligation of profitability.

(Nagaraj, 2005) Opines that profitability of PSEs is mainly because of petroleum sector enterprises However, since 1980s it is found that profitability of other PSEs excluding petroleum sector enterprises has also improved. He further states that disinvestment is unlikely to affect economic performance since the state continues to be the dominant shareholder. The share price movement will not have significant impact on such PSEs. In a way privatization can improve the overall economic environment of the country but could not be able to clearly define the changes in performance solely or mainly due to ownership change.

(Kumar V. , 2011) Examines the factors associated with PPP mode of privatization in infrastructural projects. The author is of the opinion that disinvestment no doubt leads to productivity enhancement, profitability and efficiency but many of the MOUs die in paper due the promises apprehensive with jeopardy. The acute requirement of infrastructural growth through the initiative of public-private mode could be fulfilled. The trends in cancellation in the water and sewerage sector is very high which is resulting in low level investment of the private sector in the essential public services which is the need of the hour. The author also highlighted the negative impact on employment as a disadvantage of the disinvestment.

SUSTAINABILITY OF PSE

The reforms were pushed out of compulsion as most of the PSE were incurring recurring losses and become uncompetitive in an open economy. The national resources were found to be draining through the PSE which were once considered to be the temples of modern India. It was soon evident that instead of generating savings, the public sector had become a drain on public savings. Despite its occupying the commanding heights by the end of 1990s, public sector savings were negative by as much as 4% of GDP. These negative savings led to fast accumulation of internal public debt and lower investment.

Public sector enterprises in India face insurmountable challenges with constant bureaucratic and political interferences. The basic charges against the CPSUs for their poor performance are as follows:-

- Low rate of Return on Investment
- Declining contribution to national savings
- Poor capacity utilization
- Over capitalization
- Over staffing
- Heavy Expenditure on social overheads
- Bureaucratization leading to excessive delays and
- Wastage of scarce resources.

Between 1980 and 2002, the average rate of return on capital employed by public sector units was about 3.4% as against the average cost of borrowing, which was 8.66%. The government through new economic policy in July 1991 introduced the policy of disinvestment in CPSUs mainly for improving their performance and reducing fiscal deficit. Disinvestment involves the sale of equity and bond capital invested by the government in CPSUs. However, it is the government and not the CPSUs who receive money from disinvestment. The researcher feels that rationale behind disinvestment policy is not clear and it may pose problems to Indian economy in long run. The sustainability of CPSUs is more important rather getting rid of. The policy envisaged merely bridging the gap of fiscal deficit and in a way there is no focus on their sustainability in a long run. Complete change in the ownership may lead to monopoly of capitalist class which may further aggravate crony capitalism. In a country like India were majority of the population is agrarian in nature the sustainability of PSE are of prime concern. The study attempts to focus on the issue of sustainability considering the established facts.

PROSPECTS OF CPSUS DURING GLOBALIZATION

The researcher strongly feels that the prospects of CPSUs are still alive and they can become paradise of modern India as already the concept of Maharatna have crept into the system of their nomenclature. Majority of CPSUs as identified Navratna, Miniratnas has revived and few are showing potential of turning into profit making organization. At the outset there remains very sound future of these CPSUs which could be managed by the Government because of the huge stake. The current disinvestment policy could be a major threat to CPSUs which are currently treated with disregard by the policy reformers. The study finds that PSEs were exposed to competition with domestic private sector as well as Large Multinational Corporations. In order to compete in the new environment, the PSEs undertook significant initiatives for improving technology and scaling up capacities to operate at par with the private counterparts in the liberalised economy. Some of the PSEs sailed through this effort but some felled down and started reeling losses. Today, the Steel Authority of India Ltd. is India's largest steel manufacturing unit, ONGC is touted as India's highest profit making organisation, and the Indian Oil Corporation Ltd. is reckoned as India's largest commercial enterprise. It is a strong postulation that survival of most of the PSEs are within their own preview with coercive measures to be taken in multidimensional areas in order to plug the holes. The disinvestment could not be the panacea for their survival. The CPSUs could emerge to be vibrant and core constituent of India's industrialization process. The future of PSEs is in the hands of policy makers and reconsideration is required for their sustainability through other routes.

DISINVESTMENT POLICY AND SUSTAINABILITY

The problems faced by sick and loss making Public Sector Undertakings include resource crunch, erosion of net worth due to continuous losses incurred by the Public Sector Undertakings, reluctance of financial institutions to provide funds for revival of these enterprises, heavy interest burden, non-availability of raw materials, old and obsolete plant and machinery, out-dated technology, low capacity utilization, excess manpower, reduction in import duties, stiff competition, weak marketing strategy, etc. The crucial shift in the Government policy for disinvestments of public sector undertakings was mainly attributable to poor performance of these enterprises and burden of financing their requirements through budget allocations. Disinvestment becomes a problem to the government due to poor and non-viable financial position of many Public Sector Enterprises. Public Sector undertaking disinvestment has met with some difficulties during 1995-96 due to highly depressed market conditions and investors resistance to equity. The Budget for 1996-97 has provided for disinvestment of Rs. 5000 crore by the Public Sector Undertakings against which only Rs.357 crore were actually raised in 1995-96. Government's strategy towards public enterprises has been to include a thoughtful fusion of consolidation of strategic units, privatizing non-strategic ones through continuing disinvestment or strategic sale and formulating feasible rehabilitation approaches for feeble units. The policy of government on disinvestments has been evolved over a period. Its beginning could be traced to 1991-1992 when in a bid to broad-based equity, improve management, enhanced availability of resources for Public Sector Enterprises and yield resources for the exchequer, it was decided to divest up to 20 per cent of government equity in selected Public Sector Undertakings in the favour of public sector institutional investment. In 1993 the Rangarajan Committee recommended the need to divest up to 49 per cent for industries explicitly reserved for public sector. Bearing few exceptional cases it recommended 100 per cent of the government stake to the divested. The present study is based on other dimensions for survival and sustainability of CPSE apart from the disinvestment policy.

FACTORS OF SUSTAINABILITY

The companies are formed with a concept of going concern with perpetuity and transferability of shares. The management of the organisation are planned to cater to the vision and mission of the organisation and survival circumventing bankruptcy. The question of sustainability arises from the day of incorporation of the companies and the industry under which they are following. However there are certain extraneous uncontrollable factors which play an instrumental role in the sustainability which could be managed if companies are properly proficient with exceptional risk management. Sustainability in general could be applicable to both private as well as public sector enterprises. The study found that there are private companies which started since independence parallel with PSEs are surviving and turnaround themselves with the changing environment and the dynamics of the business but PSEs failed to do so. What are the factors of sustainability which lead private enterprises to be irrepressible under unfavourable circumstances which could also become the factors/saviour of PSEs? Barring the uncontrollable factors there are other factors for sustainability which are non-financial but could produce miracle changes on the financial factors.

CONCLUSIONS

The paper attempts to identify such factors such as management of capital expenditure while expansion, diversification and up gradation of technology, support of large research and development activities to understand the mathematics of capital budgeting while implementation of project/select milestones, involvement of research and development in design, innovation of new product, patent benefits, energy conservation with renewable energy technique, cost reduction without compromising the functionality of the product, strategic planning for proper capacity utilization, measurement and management of risk, adoption restructuring route in order to achieve economies of scale as and when needed, managing customer relationship management, aggressive marketing and advertisement, economic value addition via human assets and optimum utilization of human resource, Corporate social responsibility vis-a-vis environmental conservation. The paper emphasizes on the above mentioned factors of sustainability for PSEs considering the impact of both first and second generation reforms.

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