ಕರ್ನಾಟಕ ರಾಜ್ಯ ಮುಕ್ತ ವಿಶ್ವವಿದ್ಯಾನಿಲಯ
ಮಾನಸಗಂಗೋತ್ರಿ, ಮೈಸೂರು – ೫೭೦ ೦೦೬

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POLITICAL SCIENCE
MA [PREVIOUS]

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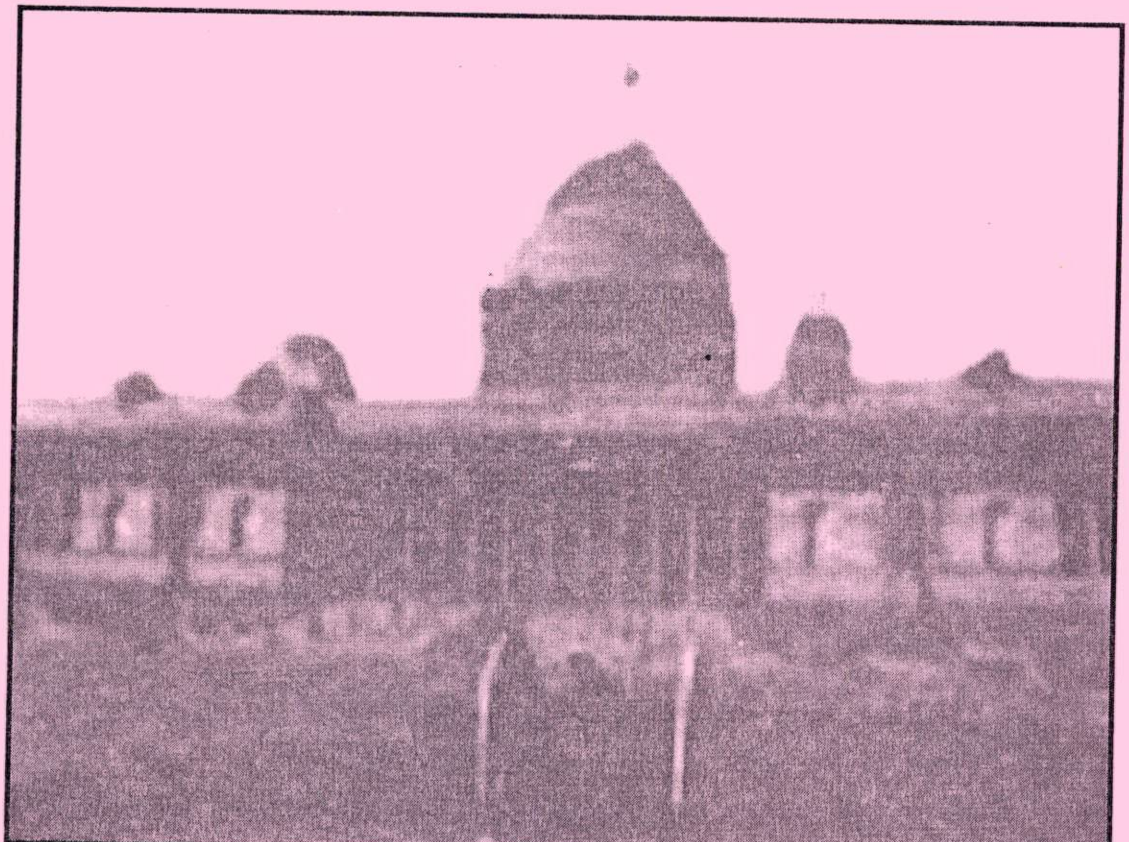

Course - IV
Paper - Major issues in Indian Administration

Block - II

ಉನ್ನತ ಶಿಕ್ಷಣಕ್ಕಾಗಿ ಇರುವ ಅವಕಾಶಗಳನ್ನು ಹೆಚ್ಚಿಸುವುದಕ್ಕೆ ಮತ್ತು ಶಿಕ್ಷಣವನ್ನು ಪ್ರಜಾತಂತ್ರೀಕರಿಸುವುದಕ್ಕೆ ಮುಕ್ತ ವಿಶ್ವವಿದ್ಯಾನಿಲಯ ವ್ಯವಸ್ಥೆಯನ್ನು ಆರಂಭಿಸಲಾಗಿದೆ.

ರಾಷ್ಟ್ರೀಯ ಶಿಕ್ಷಣ ನೀತಿ 1986

The Open University system has been initiated in order to augment opportunities for higher education and as instrument of democrating education.

National Education Policy 1986

ಮುಕ್ತ ವಿಶ್ವವಿದ್ಯಾನಿಲಯವು ದೂರಶಿಕ್ಷಣ ಪದ್ಧತಿಯಲ್ಲಿ ಬಹುಮಾಧ್ಯಮಗಳನ್ನು ಉಪಯೋಗಿಸುತ್ತದೆ. ....ವಿದ್ಯಾಕಾಂಕ್ಷಿಗಳನ್ನು ಜ್ಞಾನ ಸಂಪಾದನೆಗಾಗಿ ಕಲಿಕಾ ಕೇಂದ್ರಕ್ಕೆ ಕೊಂಡೊಯ್ಯುವ ಬದಲು, ಜ್ಞಾನ ಸಂಪತ್ತನ್ನು ವಿದ್ಯೆ ಕಲಿಯುವವರ ಬಳಿ ಕೊಂಡೊಯ್ಯುವ ವಾಹಕವಾಗಿದೆ.

ಡಾ. ಕುಳಂದೈಸ್ವಾಮಿ

"The Open University system makes use of Multimedia in distance education system. .... it is vehicle which transports knowledge to the place of learners rather than transport to the place of learning.

Dr. Kulandai Swamy

ವಿಶ್ವಮಾನವ ಸಂದೇಶ

ಪ್ರತಿಯೊಂದು ಮಗುವು ಹುಟ್ಟುತ್ತಲೇ - ವಿಶ್ವಮಾನವ. ಬೆಳೆಯುತ್ತಾ ನಾವು ಅದನ್ನು **'ಅಲ್ಪ ಮಾನವ'**ನನ್ನಾಗಿ ಮಾಡುತ್ತೇವೆ. ಮತ್ತೆ ಅದನ್ನು **'ವಿಶ್ವಮಾನವ'**ನನ್ನಾಗಿ ಮಾಡುವುದೇ ವಿದ್ಯೆಯ ಕರ್ತವ್ಯವಾಗಬೇಕು.

ಮನುಜ ಮತ, ವಿಶ್ವ ಪಥ, ಸರ್ವೋದಯ, ಸಮನ್ವಯ, ಪೂರ್ಣದೃಷ್ಟಿ ಈ ಪಂಚಮಂತ್ರ ಇನ್ನು ಮುಂದಿನ ದೃಷ್ಟಿಯಾಗಬೇಕಾಗಿದೆ. ಅಂದರೆ, ನಮಗೆ ಇನ್ನು ಬೇಕಾದುದು ಆ ಮತ ಈ ಮತ ಅಲ್ಲ; **ಮನುಜ ಮತ.** ಆ ಪಥ ಈ ಪಥ ಅಲ್ಲ; **ವಿಶ್ವ ಪಥ.** ಆ ಒಬ್ಬರ ಉದಯ ಮಾತ್ರವಲ್ಲ; ಸರ್ವರ ಸರ್ವಸ್ತರದ ಉದಯ. ಪರಸ್ಪರ ವಿಮುಖವಾಗಿ ಸಿಡಿದು ಹೋಗುವುದಲ್ಲ; ಸಮನ್ವಯಗೊಳ್ಳುವುದು. ಸಂಕುಚಿತ ಮತದ ಆಂಶಿಕ ದೃಷ್ಟಿ ಅಲ್ಲ; ಭೌತಿಕ ಪಾರಮಾರ್ಥಿಕ ಎಂಬ ಭಿನ್ನದೃಷ್ಟಿ ಅಲ್ಲ; ಎಲ್ಲವನ್ನು ಭಗವದ್ ದೃಷ್ಟಿಯಿಂದ ಕಾಣುವ **ಪೂರ್ಣದೃಷ್ಟಿ.**

ಕುವೆಂಪು

Gospel of Universal Man

Every Child, at birth, is the universal man. But, as it grows, we turn it into "a petty man". It should be the function of education to turn it again into the enlightened "universal man".

The Religion of Humanity, the Universal Path, the Welfare of All, Reconciliation, the Integral Vision- these ***five mantras*** should become View of the Future. In other words, what we want henceforth is not this religion or that religion, but the Religion of Humanity ; not this path or that path, but the Universal Path ; not the well-being of this individual or that individual, but the Welfare of All ; not turning away and breaking off from one another, but reconciling and uniting in concord and harmony ; and, above all, not the partial view of a narrow creed, not the dual outlook of the material and the spiritual, but the Integral Vision of seeing all things with the eye of the Divine.

Kuvempu

Karnataka State
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Political Science
Course IV

Block

2

Introduction

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Block II - Introduction

This block consists of four blocks. Block 5 deals with the Chapter entitled Administration of Public Enterprises in India. Block 6 deals with the Importance, growth and forms of Public Enterprises in India. It also deals with the origin, functions of Public Corporation, Companies and departmental undertaking and their goverining bodies etc. Block 7 deals with the important concept of Autonomy and accountability of Public Enterprises in India. Block 8 deals with various problems confronting Public Enterprises. It also contains the future of Public Enterprises in India.

Structure

Unit-5 ADMINISTRATION OF PUBLIC SECTOR ENTERPRISES IN INDIA

Structure

5.0 OBJECTIVES

After going through this Unit, you will be able to:

- Understand how Public Sector Enterprises *were* administered during the Pre-Liberalization phase.
- Understand how Public Sector Enterprises *are* administered during the Post-Liberalization phase.
- Compare the two scenarios, and see whether the Public Sector is making any headway in administrative reform.

5.1 INTRODUCTION

Public Sector Enterprises (PSEs) form the basis of economic growth of the country. Starting from 5 units at the end of 1950-51, the number of Central PSEs today stands at 250. These PSEs are engaged in manufacturing activity covering a diversified portfolio (steel, minerals and metals, coal and lignite, power, petroleum, fertilizers, chemicals and pharmaceuticals, heavy engineering, medium and light engineering, transportation equipment, consumer goods, agro-industries and textiles) and also the services sector (trading and marketing, transportation, contracting and construction, industrial consultancy, tourism, financial and telecommunication services). With such a vast spectrum of activities of PSEs, the need for coordination and evolving a uniform approach to the common problems faced by them was felt particularly since administrative control of enterprises vests with the various ministries/ departments. Based on the decisions of the government, the Bureau of Public Enterprises (BPE) issued instructions and guidelines from time to time on various aspects of management of PSEs - General Management, Financial Management, Construction Management, Production and Materials Management, and the like - for their efficient and optimal management.

The PSEs function in an environment wherein multifarious agencies exercise their control. The PSEs are not only subject to Parliamentary control through the Committee on Public Undertakings and audit control exercised by the Comptroller and Auditor-General of India (CAGI), but also to various ministries and agencies, which include:

1. Administrative Ministry
2. Department of Disinvestment

3. Department of Public Enterprises (DOPE, Ministry of Industry)
4. Public Enterprise Selection Board
5. Department of Personnel
6. Ministry of Labour
7. Planning Commission
8. Department of Expenditure (Ministry of Finance)
9. Secretariat of Industrial Approvals (Ministry of Industry)
10. Bureau of Industrial Costs & Prices (BICP)
11. Ministry of Civil Supplies
12. Director-General of Technical Development (Ministry of Industry)
13. Department of Company Affairs (for those enterprises which are registered as Joint Stock Companies under the Companies Act)
14. Director-General of Imports and Exports (Ministry of Commerce)
15. Central Bureau of Investigation (CBI) & Central Vigilance Commission (CVC)

The restrictions on autonomy, excessive regulation and multiple controls can be traced to the multifarious objectives set out for the PSEs as an instrument of Government policy, and need for accountability to Government and Parliament.

Problems have arisen because the balance between autonomy and accountability has been struck not by objective interaction but by government's decisions, which are often influenced by the pressures of dominant groups or socio-political forces. The Vittal Committee Report (1997) also stated that as many as 892 guidelines were operative, at the time of formulation of its report. Too much control has reduced the Public Enterprises to the status of a government department, defeating the very purpose for which they were created.

5.2 ADMINISTRATION OF PUBLIC SECTOR ENTERPRISES DURING THE PRE-LIBERALIZATION PHASE (1951-1990)

Most of the guidelines were issued during this period, particularly in the 1960s and 1970s when the PSEs were the dominant policy instruments to achieve the socio-economic goals of public policy. The major aim of the guidelines was to evolve a uniform approach to the common problems faced by the Public Enterprises under their respective administrative ministries. During this period, the Government of India constituted a large number of committees/commissions with a view to evolving suitable form of control and make PSEs more autonomous, and, at the same time, more accountable. These committees were the Gorwala Committee (1951), Appleby Committee (1956), Krishna Menon Committee (1959), Administrative Reforms Commission (1967), Action Committee (1971), Fazal Committee (1980), Economic Administrative Reforms Commission (1984) and Arjun Sengupta Committee (1984).

The **Gorwala Committee** (1951) suggested measures for the efficient administration of PSEs. The immediate objective was to equip the government gradually but effectively for the efficient discharge of its increasing task as a participant in industry. This implied the evolution of suitable forms of control, direction and management, and the formation of expanding nucleus of suitable personnel at all levels.

The **Appleby Committee** (1956) emphasised that structural and procedural arrangements should be made for the growing size of administration. The report particularly dealt with the shortcomings of India's administrative set up and application of the concept of autonomy to the PSEs. The Board of Directors for companies and corporations should work on the principle of delegation. According to this Committee, the Board should have two functions, evaluation and coordination. The layout, the hierarchical structure and the location of the plant, or the public undertaking, should be determined with a view to future growth and enlargement.

As the public sector came of age, specific committees were set up to go into the working of the Public Sector Enterprises. The **Krishna Menon Committee** (1959) dwelt at great length on this and made concrete recommendations on how to reduce dependence of Public Sector Enterprises on the Central Secretariat.

The **Estimates Committee** (1958) and also the Krishna Menon Committee recommended the setting up of public corporation form of organization. V.K. Krishna Menon suggested how broad supervision may be maintained over Public Enterprises, without any interference in day-to-day activities. The committee recommended the setting up of a separate Parliamentary Committee.

The **Administrative-Reforms Commission** was appointed on 5 January, 1965, to examine Public Administration in this country and to make "recommendations for reforms and reorganization with a view to ensuring the highest standards of efficiency and integrity in the public services, and for making public administration a fit instrument for carrying out the social and economic policies of the government". The A.R.C. constituted a Study Team on Public Enterprises.

The Study Team in its report submitted in 1967 pointed out the tendency of establishing "a number of individual undertakings of varying sizes, very often functioning in the same field of industry" which had thus caused *fragmentation of the industrial effort* of the Public Sector: It recommended the establishment of sector corporations to meet the situation. The Commission emphasised the need for Functional Directors and opposed the thinking of not appointing them in smaller Public Enterprises.

An **Action Committee** (1971) was set up to suggest measures to improve PSE performance with particular reference to (i) capacity utilization, (ii) reduction of cost, (iii) preventive maintenance, (iv) labour relations, and (v) R & D. A brief information about the work of the committee was provided in the Annual Reports of the Bureau of Public Enterprises up to 1973-74.

The **Fazal Committee** (1980) submitted sectoral reports on coal, fertilizers, engineering and shipping; on the Indian Telephone Industries Limited, the Indian Petro-chemical Corporation Limited, the Neyveli Lignite Corporation, the working of Bureau of Public Enterprises and important issues relating to public sector management and performance. The committee suggested steps necessary for improving performance which included drawing up a time-bound action programme for ensuring maximum capacity utilization, and adequate control of operational costs.

The one-man **Economic Administration Reforms Commission** (EARC) headed by Mr. L.K. Jha submitted four reports between November 1983 and June 1984 entitled: (i) The top management and the Boards, (ii) Autonomy and Accountability, (iii) Government Clearances and Approvals, and (iv) The Profitability of Public Enterprises. The commission emphasized the need for Functional Directors, irrespective of' the size of PSEs. It recommended that PSEs should be distanced from the ministries, and the latter confined to periodical reviews of overall performance with reference to overall objectives. All ministries concerned with PSEs should undertake a thorough review of their existing information systems and reduce the large number of reports and returns. It should be recognized that in relation to PSEs, the role of the ministry is one of monitoring and not management.

To improve the interface between government and the PSEs, the **Arjun Sengupta Committee** (1984) recommended the concept of Holding Company so as to introduce an intermediate level of management between the ministry and the companies. In the committee's view, such an organizational structure would keep the operation of an enterprise at 'arm's length' from the government and promote decentralized decision making within the enterprise.

The Sengupta Committee also recommended the introduction of Memorandum of Understanding (MOU) with a view to granting operational autonomy and ensure accountability, and the making of Boards and managers accountable through a contract system which was geared to improve performance.

The **Committee of Secretaries** (1990) reviewed the guidelines issued by the Government from time to time, to ensure that the number of guidelines is reduced to the barest minimum, so that the enterprises could function with the required autonomy. Government interface with the PSEs should be only on very important policy issues. The committee indicated which of these guidelines should be treated as 'mandatory' and other guidelines being treated as 'guidelines only'. All guidelines should invariably be issued through the Department of Public Enterprises to ensure common policies and that they do not violate the 'arm's length' relationship with PSEs. It was also decided that all Ministries should, in future, forward whatever instructions/guidelines they wish to pass on to the PSEs under their administrative control, to the Bureau of Public Enterprises, which will function as the nodal point to clear such guidelines before issuing orders.

5.2.1 ACTION TAKEN

Various committees recommended the setting up of the Public Corporation form of organisation for PSEs. Government, however, preferred the Company form of management for running commercial and industrial undertakings. This form is advantageous as it allows the flexibility and autonomy necessary for the successful operation of commercial enterprises, while, at the same time, providing for parliamentary control over the companies, under the special provisions of the Company Act, 1956. The recommendation for setting up a separate parliamentary committee was accepted by the Government in December, 1961 and a motion passed in Parliament in November, 1963. The Committee on Public Undertakings (COPU) was set up on 1 May, 1964. After the report of the **Administrative Reforms Commission** (1967) headed by Morarji Desai, which also devoted much attention to the question of autonomy, there has been maximum possible delegation on paper to the enterprises.

The Government of India introduced the concept of 'Memorandum of Understanding' in 1988. Experience however, suggests that autonomy and accountability were not implemented in both letter and spirit. The MOU system essentially emerged as another instrument in the hands of the administrative ministries to control the management of enterprises. No tangible change had taken place with regard to abolition of guidelines at this stage.

Check Your Progress - 1

Note: 1) Use the space given below for your answer.

2) Also check your answer with the clue given at the end of the Unit.

1. Describe the administration of Public Sector Enterprises during the Pre-Liberalization phase.

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5.3 POST-LIBERALIZATION PHASE AND ADMINISTRATIVE RESTRUCTURING OF PUBLIC SECTOR ENTERPRISES

The New Economic Policy, 1991, and in particular, the New Industrial Policy, 1991, envisaged far-reaching reforms in public enterprises, which also had their bearings on the administrative structure of public enterprises. The significant public enterprise reform initiatives included in the **New Industrial Policy, 1991** are:

- Portfolio of Public sector investments will be reviewed with a view to focusing the public sector on strategic, high-tech and essential infrastructure.
- Public enterprises, which are chronically sick and which are unlikely to be turned around, will, for the formulation of revival/rehabilitation schemes, be referred to the Board for

Industrial and Financial Reconstruction (BIFR).

- A part of government's shareholding in the public sector would be offered to mutual funds, financial institutions, general public and employees.
- Boards of public sector companies would be made more professional and given greater powers.
- There will be greater thrust on performance improvement through the Memorandum of Understanding (MOU) system.

In addition, during post-liberalisation phase, two more reforms were introduced in public enterprises, firstly, the autonomy package in the form of *Navratna* and *miniratna* status, and secondly, abolition and modification of guidelines regulating the behaviour of public enterprises.

The Department of Public Enterprises, on 16 March, 1992 issued guidelines regarding the composition of the Boards of Directors of public sector enterprises, thereby cutting down the number of governmental directors on the boards to not more than 1/6th of the actual strength of the board. The number of full-time functional directors should not exceed *50%* of the strength of the board and the number of non-official part-time directors should be at least 1/3rd of its actual strength.

One of the aims of disinvestment is to penetrate market discipline within public enterprises and improve performance through internal restructuring. The Rangarajan Committee on Disinvestment (1993) gave recommendations regarding the *modus operandi* of disinvestment criteria for valuation of equity shares, target clientele for disinvestment and other related issues.

The Disinvestment Commission (1996-1999) has taken a comprehensive review of disinvestment and made recommendations for 58 PSEs. Along with disinvestment recommendations, the commission also recommends that, where appropriate, PSEs should be restructured before disinvestment in order to enhance enterprise value and intrinsic share value. The broad areas of restructuring include corporate governance and business and technological restructuring. The Commission has recommended three kinds of restructuring proposals (i) proposals covering all the enterprises; (ii) additional proposals for moderate performers; and (iii) enhanced autonomy for top performers.

Proposals Covering all the Enterprises:

The restructuring recommendations for all the enterprises are as follows:

- Professionalising the Board of Directors;
- Provision for elected directors in the light of the changing pattern_of shareholding;
- Approval of selection of top management by the concerned ministry, rather than by the Appointment Committee of the Cabinet;
- appointment of top management on contractual basis;
- hike in the salary and incentives of top management;
- autonomy in price fixation;
- enforcing accountability;
- setting up the Pre-investigation Board for evaluating the cases of malfeasance in public enterprises; and
- strengthening the investor interface.

Additional Proposals for Moderate Performers:

The Commission has recommended additional autonomy to the enterprises' having moderate performance. The measures constitute:

- empowering the Board to dispose of assets with government approval; and
- autonomy of investment up to a specified limit.

Enhanced Autonomy for Top Performers:

The Commission has suggested enhanced autonomy for top performers in the form of empowering the Boards to have joint ventures and full freedom in case of investment.

The NIP-1991 claims to have placed a greater emphasis on performance improvement through the MOU system. It aims to achieve greater operational autonomy and make management responsible for results; attain a culture of accountability throughout the organization, and not merely at the point of interface between the government and the management; and operate public enterprises on business lines. The number of public enterprises signing the contract reached 108, in1999-2000.

Uniformity in the control of all units just for the sake of uniformity is neither desirable nor conducive to growth. It is necessary to recognize that a public enterprise working efficiently is not to be controlled in the same manner as a unit making losses. Certain amount of encouragement and higher degree of autonomy should be given to profit-making units if these units are to grow. Keeping this in view, an autonomy package was announced in 1997. A major reform initiative has been the grant of operational autonomy initially to nine, and later to another two very large public enterprises on the basis of highest profitability and size of capital with the conferment of *'Navratna'* status. Under the package, the government announced grant of autonomy to the selected enterprises in respect of six major areas of their affairs; capital expenditure, organisational restructuring, personnel policies, technical joint ventures, and borrowings. The aim of the package was to enable these eleven enterprises to become giant players especially in the international market. Likewise, at a later stage, another 97 public sector enterprises (48 PSEs in Category I and 49 PSEs in Category II) were classified as *'Miniratnas'* to enable selected enterprises to become big players in the domestic market.

The **Vittal Committee** (1997) was set up to review the existing government guidelines. Most of the guidelines which were issued in the 1960s and 70s when the public enterprises were in a formative stage, have lost their relevance. The enterprises need considerable flexibility and autonomy to be able to function in post-liberalisation economic environment as they have to respond to market forces. After a detailed examination, the Vittal Commitfee recommended the deletion of 762 guidelines, modification of 25 and retention of 125, out of 892 guidelines that were issued.

Another committee under the Chairmanship of Mr. T.K.A. Nair, Chairman, Public Enterprise Selection Board (PESB) has been constituted by the Government of India to review the existing guidelines and to recommend cancellation/redrafting or simplification of the guidelines (Kaleidoscope, 2001).

5.3.1 Action Taken

Disinvestment was expected to provide some autonomy, apart from increased accountability, due to the presence of non-government shareholders. In practice, this has not happened. Mainly due to limited disinvestment, and with that anyway monopolised by public sector financial institutions and mutual funds, the penetration of market discipline into public enterprises has not been attained. It has been mainly confined to profit making units. The earlier phases of disinvestment were dominated by government owned and controlled financial institutions and mutual funds. The government institutional buyers did not compel the public enterprises to restructure both boards of management and internal organisational arrangements. A new Department of Disinvestments was set up in December 1999 to expedite the programme of disinvestments. A second Disinvestment Commission, under the Chairmanship of Mr. R.H. Patel, has been set up in January 2001 to look into the complex issue of disinvestments.

Only a few PSEs have undergone restructuring/reorganization of their Boards which aimed at nominating part-time non-official experts as members of the Board of Directors as a means of strengthening the management expertise and capacity of Boards.

In the case of sick enterprises, not much headway has been made, other than setting up of a National Renewal Fund to protect the workers of enterprises subject to reform. Recently, a small number of chronically sick enterprises have been wound up with liberal VRS packages offered to their employees.

The Government accepted the Vittal Committee's recommendations and abolished 696 guidelines, retained 171 guidelines and suggested modification in the remaining 25, stating that "with the passage of time and changing policies and economic scenario and the maturity accorded by the PSEs, these guidelines are no longer relevant". This deletion of guidelines has proved to be a half-hearted measure as the key guidelines have been retained. Further, many new guidelines have since then been introduced, negating a positive step taken. The number of guidelines, as of today, is still too large to provide a level playing field to the PSEs with their private competitors. The Nair Committee suggested rationalization and simplification of various guidelines. Government's approval to this Committee's recommendations will go a long way in allowing operating autonomy to PSEs.

Overall experience shows that this key empowerment initiative remained limited to Boards of Directors; it did not percolate down to the middle and lower levels of management, and, consequently, did not translate into much at ground level. Even at the Government and Board interface level, it faced serious problems as the political bosses and top bureaucrats did not adjust mentally to a system which sought to foster a greater degree of decentralization and delegation of decision-making authority to the enterprises involved.

The MOU has failed and has become an instrument of control. Experience shows that the system of MOU is an unequal agreement and the system as practiced now has not established an "arm's length" relationship in reality.

Check Your Progress - 2

Note: 1) Use the space given below for your answer.

2) Also check your answer with the clue given at the end of the Unit.

1. Give an account of the process of administrative restructuring of Public Sector Enterprises in the post-Liberalization phase.

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5.4 LET US SUM UP

Prior to liberalisation, public enterprises were highly regulated by the government. As many as 892 guidelines to be adhered to and the innumerable control measures virtually relegated the public enterprises to the position of a conventional administrative department, thus defeating the very purpose of creating them as public enterprises. In the pre-liberalisation phase, many committees and commissions were set up to look into their working and the question of autonomy. Following the recommendations of these committees, a separate Committee on Public Undertakings (COPU) was set up in 1964 and Memorandum of Understanding (MOU) introduced in 1988. In the early 1990s, the public sector came in for severe attacks especially on non-performance in terms of financial parameters. The NIP-1991 added a greater thrust on restructuring the public sector. In the changing business and economic environment, the growth and survival of public enterprises depends on speedy decisions so as to compete with private enterprises both domestic and international. Prominent initiatives undertaken to restructure public enterprises include disinvestment/ privatisation; introduction of MOU on a wider scale; professionalisation of public enterprise Boards; grant of 'navratna' and 'miniratna' status; and relaxation of guidelines. The outcome of these initiatives is at variance with their objectives mainly because of the vested interests of administrative ministries, managements, employees, trade unions and interest groups.

5.5 Key Words

Enterprise	-	legally created body to undertake economic activities
Board	-	Governing body

5.6 SOME USEFUL BOOKS

1. Administrative Reforms Commission, **Report of the Study Team on Public Sector Undertakings**, (Government of India Publications, New Delhi, 1967.)
2. **Disinvestment Commission Reports.**
3. Economic Advisory Council, **Public Enterprises in India – Some Current Issues,** (Government of India, New Delhi, 1987).
4. Ramaswamy Iyer, **A Grammar of Public Enterprises,** (Rawat Publications, New Delhi, 1993).
5. B.S. Ghuman and Bhawna Gupta, "Administrative Restructuring in Indian Public Enterprises, **Management inGovernment,** October-December 2002.

5.7 ANSWERS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress – 1

1. See Section 5.2.

Check Your Progress – 2

1. See Section 5.3.

NOTES

Unit 6 IMPORTANCE, GROWTH AND FORMS OF PUBLIC ENTERPRISES IN INDIA

Structure

6.0 OBJECTIVES

After going through this Unit, you will be able to:

- Understand the importance of the Public Sector in India, through the Industrial Policy Resolutions of 1948, 1956, 1973, 1980 and 1991.
- Trace the growth of the Public Sector in India.
- Distinguish the Departmental Undertaking, the Government Company and the Public Corporation by recognizing the characteristics, merits and weaknesses of each.

6.1 INTRODUCTION

The growth of the Public Sector in India has been guided by the Industrial Policy Resolution, 1956, which gave the Public Sector a strategic role in the economy. At the time of India's independence in1947, there were various problems confronting the country, which needed to be tackled in a planned and systematic manner. India was basically an agrarian economy, with a weak industrial base, low level of savings and inadequate investment, and near absence of infrastructure facilities. A vast percentage of the population was extremely poor. There existed considerable inequalities in income, levels of employment, as well as glaring regional imbalances in economic attainments and trained manpower in various fields of management. It was, thus, obvious, that if the country was to speed up its economic growth and maintain it in the long run at a steady level, a big push was required from the Government. As such, State intervention in all sectors of the economy was inevitable because the private sector had neither the necessary resources in terms of funds, managerial and scientific skills, nor the will to undertake risks involved in large, long-gestation investments. Among the imperatives were removal of poverty, better distribution of income, expansion of employment opportunities, removal of regional imbalances, accelerated growth of agricultural and industrial production, better utilization of natural resources and a wider ownership of economic power to prevent its concentration in a few hands. Given the type and range of problems faced by the country on its economic, social and strategic fronts and the various imperatives, it became a pragmatic compulsion to deploy the Public Sector as an instrument for self-reliant economic growth, so as to develop a sound agricultural and industrial base, diversify the economy and overcome the economic backwardness.

Some of the major objectives behind the setting up of Public Enterprises could broadly be summarized to include the following:

- To ensure rapid economic growth and industrialization of the country, and create necessary infrastructure for economic development;
- To earn return on investment and thus generate resources for development;
- To promote redistribution of income and wealth;
- To create employment opportunities;
- To promote balanced regional development;
- To assist the development of small-scale and ancillary industries; and
- To promote import substitution, and save and earn foreign exchange for the economy.

6.2 IMPORTANCE OF THE PUBLIC SECTOR IN INDIA

The importance given to Public Enterprises, since 1947, can be understood by taking a look at the several industrial policy statements, as well as our Five Year Plans. India attained independence on August 15th, 1947 and Jawaharlal Nehru became the first Prime Minister of India. All the industrial policy statements during the Nehruvian era bear the imprints of Nehru's staunch belief and faith in socialism and the role of the State in promoting development.

6.2.1 The Industrial Policy Resolution of 1948

The first important official pronouncement by the Government of India on the industrial policy was made in 1948 in the context of "arrested development" in the country during colonial rule. In other words, the slackened capital market, scarcity of raw materials, high production costs, labour unrest, devaluation of the rupee and rampant inequality in colonial India, influenced the Industrial Policy Resolution of 1948.

The Resolution aimed at promoting a rapid rise in the standard of living of the people by exploiting the latent resources of the country, increasing production and offering opportunities to all for employment in the service of the country. Regarding the vital role of the Public Sector in India, the Resolution stated:

There can be no doubt that the State must play a progressively active role in the development of industries, but ability to achieve the main objectives should determine the immediate extent of State responsibility and the limits to private enterprise. Under present conditions, the mechanism and the resources of the State may not permit it to function forthwith in industry as widely as may be desirable. The Government of India *are taking steps to remedy the situation. They feel, however, that, for some time to come, the State could contribute more likely to the increase of national wealth by expanding its present activities wherever it is already operating and by concentrating on new units of production in other fields, rather than on acquiring and running existing units. Meanwhile, private enterprises, properly directed and regulated, have a valuable role to play.*

The Resolution further stated that "state enterprises will, as a rule, be through the medium of public corporations under the statutory control of the Central Government who will assume such powers as may be necessary". In the Resolution, industries were divided into three categories - the public sector, the mixed sector and the private sector. The public sector included the manufacture of arms and ammunition, the production and control of atomic energy, and the ownership and management of railway transport. These industries were to be the exclusive monopoly of the central government. The Resolution empowered the State to take over any industry vital for national interest in any emergency.

Under the second category were included six basic industries such as coal, iron and steel, aircraft manufacture, ship building, mineral oils and manufacture of telephone, telegraph and wireless apparatus (excluding radio receiving sets). The state was exclusively responsible for the establishment of these industries.

The third category included the rest of the industrial field kept open to the private sector. However, it was made clear that the State could intervene whenever the progress of an industry under private enterprise is not satisfactory.

The above industrial policy, no doubt, laid the foundation for the coexistence of public sector and private sector, which came to be known as the *mixed economy* in India.

It must be noted that all the industrial policies formulated and implemented during the Nehruvian and post-Nehruvian period in India, up to the formulation of the New Economic Policies in 1991 - have been governed by the principles laid down in the Indian Constitution. The Constitution of India, in its Preamble has declared that it aims at securing for all its citizens:

"Justice - social, economic and political; Liberty of thought, expression, belief, faith and worship; Equality of status and of opportunity; and to promote among them all, Fraternity

assuring the dignity of the individual and unity of the nation".

The Directive Principles of State Policy embodied in Part IV of the Constitution state that:

"*The State shall strive to promote the welfare of the people by securing and protecting, as effectively as it may, a social order in which justice - social, economic and political - shall inform all the institutions of national life*".

The Directive Principles further state :

"*The State shall, in particular, direct its policy towards securing –*
that the citizens, men and women equally, have the right to an adequate means of livelihood;
that the ownership and control of the material resources of the community are so distributed as best to subserve the common good;
that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment.

The Planning Commission was set up in March 1950. The objectives, techniques and priorities for the planning of industries were in consonance with the principles laid down in the Indian Constitution. The Commission presented the First Five Year Plan of Development for a period of five years from April 1951 to March 1956. As to the role of the State and public sector, the First Five Year Plan document observed:

Whether one thinks of the problem of capital formulation, or of the introduction of new techniques, or of the extension of social services, or of the overall realignment of productive forces or class relationships within society, one comes inevitably to the conclusion that a rapid expansion of the economic and social responsibilities of the state will alone be capable of satisfying the legitimate expectations of the people. This need not involve complete nationalisation of the means of production or elimination of private agencies in agriculture or business or industry. But it does mean, however, a progressive widening of the public sector and the orientation of the private sector to the needs of planned economy.

Parliament accepted the "socialistic pattern of society" in December 1954 as the objective of India's social and economic policy.

6.2.2 The Industrial Policy Resolution of 1956

The above developments necessitated a fresh statement of industrial policy by the Government. Accordingly, Prime Minister Jawaharlal Nehru made a statement on April 30th, 1956. It is known as the Industrial Policy Resolution of 1956. The resolution clearly laid down that - (1) the new industrial policy must be governed by the Directive Principles of State Policy enshrined in the Indian Constitution; (2) the new industrial policy should be in conformity with the acceptance of the socialistic pattern of society as the social and economic policy. To realise these objectives, the industrial policy stated that it was essential:

- To accelerate rate of economic growth;
- To speed up industrialisation, in particular to develop heavy industries and machine making industries;
- To expand the public sector;
- To build up a large and growing co-operative sector;
- To encourage the widest diffusion of ownership and management in private industry;
- To prevent private monopolies and concentration of economic power;
- To recognise the role of cottage, village and small scale industries within the economy; and
- To realise the need for balanced economic development and the achievement of other socio-economic objectives.

The Resolution further stated:

The adoption of the socialistic pattern of society as a 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 with public sector. Other industries which are essential and require investment on a scale which only the State, in the present circumstance, could provide, have also to be in the public sector. The state has therefore to assume direct responsibility for the future development of industries over a wide area... After considering all aspects of the problem, and consultation with the planning committee, the Government of India have decided to classify industries into three categories, having regard to the part the State would play in each of them.

The Resolution classified industries into three categories as shown below:

The first category included - arms and ammunition and allied items of defence equipment, atomic energy; iron and steel; heavy electrical plant including large hydraulic and steam turbines, coal and lignite, mineral oils, mining of iron ore, manganese ore, chrome ore, gypsum, sulphur, gold and diamond, mining and processing of copper, lead, zinc, tin, molybdenum and wolfram, aircraft, air transport, railway transport, ship building, telephones and telephone cables, telegraphs and wireless apparatus; and generation and distribution of electricity. The State had to assume direct responsibility for the future development of these industries over a wide area.

The second category, consisted of all other minerals except "minor minerals" as defined in Section 3 of the Minerals Concession Rules, 1949: aluminium and other non-ferrous machine tools; ferro-alloys and tool steels; basic and intermediate products required by chemical industries such as the manufacture of drugs, dye stuffs and plastic; antibiotics and other essential drugs; fertilizers, synthetic rubber; carbonisation of coal; chemical pulp; road transport and sea transport. These industries would be progressively owned by the State; the State would also take the initiative in establishing new undertakings. In this process, private enterprises were expected to supplement the effort of the State.

The third category included all the remaining industries. The future development of these industries, in general, was to be left to the initiative and enterprise of the private sector.

There was no rigidity or watertight compartmentalisation about the categories of industries mentioned above. The following statement of the Resolution made it very clear:

The division of industries into separate categories does not imply that they are being placed in watertight compartments. Inevitably, there will not only be an area of overlapping but also a great deal of dovetailing between industries in the private and the public sectors. It will be open to the state to start any industry not included in Schedule A (First Category) and Schedule B (Second Category) when the needs of planning so require or there are other important reasons for it. In appropriate cases, privately owned units may be permitted to produce an item falling within Schedule A for meeting their own requirements or as by-products. There will be ordinarily no bar to small private owned units undertaking production, such as the making of launches and other light craft, generation of power for local needs and small-scale mining. Further, heavy *industries in the public sector may obtain some of their requirements of lighter components from the private sector, while the private in turn would rely for many of its needs on the public sector.*

Regarding the growing participation of the State in industry and trade, the Resolution stated :

The manner in which these activities should be conducted and managed assumes considerable importance. Speedy decisions and a willingness to assume responsibility are essential if these enterprises are to succeed. For this, whenever possible, there should be decentralisation of authority and their management should be along business lines. It is to be expected that public enterprises will augment the revenues of the state and provide resources for further development in fresh fields. But such enterprises may sometimes incur loss. Public enterprises have to be judged by their total results, and in their working, they should have the largest possible measure of freedom.

What is clearly discernible from the Industrial Policy Resolution, 1956, is that the public and private sectors are not be viewed as antagonistic to each other, rather complementary and supplementary to each other. Further the State would progressively play a dominant role in the economic development of the country accompanied by the rapid expansion of the Public Sector. The Resolution intended to accelerate the rate of economic development aiming at fuller employment and raising standard of living through speedy industrialisation, expanding the Public Sector, building up and expanding the co-operative sector, preventing private monopolies and concentration of economic power, and facilitating the expansion of private sector in accordance with the broader framework of planned development. In this way, the Industrial Policy Resolution, 1956, set a paradigm according to which the Second, Third and Fourth Five Year Plans were formulated and implemented.

6.2.3 The Industrial Policy of 1973

As a prelude to the Fifth Five Year Plan (1974-79) the Government announced its Industrial Policy on 2nd February, 1973:

The Industrial Policy Resolution of 1956 will continue to govern the government's policies for achieving the objectives of growth, social justice and self-reliance in the industrial sphere.

The Industrial Policy of 1973 laid emphasis on the following:

1) Public sector
2) Small-scale industries
3) Small and medium entrepreneurs
4) Larger industrial houses
5) Participation of foreign companies

The Government's policy on the Public Sector, consequent to the policy of 1973, is briefly indicated below:

All industries of basic and strategic importance, or in the nature of public utility services, would be in the public sector. Other industries which are essential, and require investment on a scale which only the State could provide, have also to be in the public sector. The State will have to take direct responsibility for the future development of industries over a wide field in order to promote the cardinal objectives of growth, social justice, self-reliance and satisfaction of basic minimum needs.

The Janata Government, which came to power at the centre in 1977, introduced new strategies and objectives in planning. The objective, i.e. "growth with social justice" was replaced by "growth *for* social justice". The Industrial Policy of 1977 under the Janata Government, aimed at accelerating the pace of industrial growth, rapid increase in the levels of employment and income of industrial workers and dispersal of small and village industries. The new policy placed "man at the centre of planning and implementation of projects and schemes".

As regards the role of the Public Sector, the policy of 1977 remarked that the Public Sector should provide a countervailing power to the growth of large houses and enterprises in the private sector. Besides, the Public Sector would be used effectively as a stabilising force for maintaining essential supplies for the consumer.

6.2.4 The Industrial Policy Resolution, 1980

The Congress under the leadership of Mrs. Indira Gandhi came to power in 1980. The Government announced its Industrial Policy on 23rd July 1980. The policy envisioned the harmonious growth of the small-scale and the large and medium sectors. The policy laid emphasis on fostering complementarity between large and small sectors.

The Congress government under the leadership of Rajiv Gandhi announced some major liberalisations in its industrial licensing policy of December 25, 1985. However, the role of public sector was not diminished. It is evident from a speech delivered by Rajiv Gandhi: *The public sector is the core of our industrial economy. I am also convinced that our public sector enterprises can be made as efficient as any in the world. Government will further improve the working of public sector enterprises. We will enhance their autonomy and make them accountable for results.*

6.2.5 Statement on Industrial Policy, 1991

In order to improve the portfolio and performance of Public Enterprises in a liberalized economy, the Government of India announced, on 24th July 1991, as a part of the 'Statement on Industrial Policy', a Statement on Public Sector Policy also. The Statement contains the following decisions:

- 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 area 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.
- Public Enterprises which are chronically sick and which are unlikely to be turned around will, for the formulation of revival/rehabilitation schemes, be referred to the Board for Industrial and Financial Reconstruction (BIFR), or other high-level institutions created for the purpose. A social security mechanism will be created to protect the interests of workers likely to be affected by such rehabilitation packages.
- In order to raise resources and encourage wider public participation, a part of the government's share-holding in the Public Sector would be offered to mutual funds, financial institutions, general public and workers.
- Boards of Public Sector companies would be made more professional and given greater powers.
- There will be greater thrust on performance improvement through the Memoranda of Understanding (MOU) system by which managements 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 negotiations and implementation more effective.

- To facilitate discussion on performance, the MOU signed between Government and the Public Enterprises would 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.

The main elements of the present Government policy towards the Public Sector are:

- Bring down Government equity in all non-strategic Public Enterprises to 26 per cent, or lower, if necessary;
- Restructure and review potentially viable Public Enterprises;
- Close down Public Enterprises which cannot be revived; and
- Fully protect the interest of workers.

Competition will also be introduced in select areas by inviting private sector participation. In the case of selected enterprises, part of government holdings in the equity share capital will be disinvested in order to provide further market discipline. Portfolio of public sector investments will be reviewed with a view to focus the sector on strategic, high tech and essential infrastructure.

Public enterprises which are chronically sick and which are unlikely to be "turned around", will 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 interests of workers.

In order to raise resources and encourage wider public participation, a part of the government's shareholding in the public sector would be offered to mutual funds, financial institutions, general public and workers. Boards of public sector companies would be made more professional and given greater powers. There will be greater thrust on performance improvement through the Memorandum of Understanding system through which managements would be granted greater autonomy and held accountable. Technical expertise would be upgraded to make MOU negotiations and implementation more effective.

Check Your Progress - 1

Note: 1) Use the space given below for your answer.

2) Also check your answer with the clue given at the end of the Unit.

1. Examine the importance given to the Public Sector in India, by the various Industrial Policy Resolutions.

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6.3 GROWTH OF PUBLIC ENTERPRISES IN INDIA

The growth of Central Public Sector Enterprises (SPSEs) and investment made in them between 1951-2001 are indicated in the following Table:

Table 1

Growth of Public Sector Undertakings of the Central Government and Investment Made in Them

As on	No.of Public Enterprises	Total Investment (Rs. in crores)
31.3.1951	5	29
31.3.1956	21	81
31.3.1967	48	953
31.3.1968	74	2,415
31.3.1969	85	3,902
31.3.1974	122	6,237
31.3.1979	176	15,602
31.3.1980	186	18,225
31.3.1981	185	21,126
31.3.1982	205	24,916
31.3.1983	209	30,038
31.3.1984	214	35,395
31.3.1985	221	42,791
31.3.1986	225	50,341
31.3.1987	237	61,603
31.3.1997	242	2,13,610
31.3.1998	242	2,31,024
31.3.1999	242	2,39,167
31.3.2000	242	2,52,745
31.3.2001	250	2,74,114

Source: Ministry of Industrial Development and Company Affairs
(Department of Company Affairs), *Annual Reports*, 1951-2001.

It can be seen from Table 1.1 that there were five non-departmental units with a total investment of 29 crores in 1951. The number of Public Enterprises rose to 237 with a total investment of Rs. 61603 crores in 1987. By the 31st of March 2001, the number of Public Enterprises had increased to 250, accounting for a total investment of Rs.2,74,114 crores.

Present Status of Public Enterprises

As on 31st March 2001, there were 250 Central Public Sector Enterprises in India (excluding six Insurance Companies and two Financial Institutions). The number of operating enterprises increased from 232 as on 31st March 2000 to 234 as on 31st March 2001. During the year 2000-01, 16 new Public Enterprises were added to the list of CPSEs, and six enterprises deleted from the list, due to either divestment of Government equity resulting in reduction in Government's shareholding to below 51 per cent, or closure of the PSE.

The enterprises may be classified under different cognate groups, as shown below:

Table 2

	Cognate Group	Total Enterprises as on 31.03.2001
I	**Enterprises under Construction**	**16**
II	**Enterprises Manufacturing/Producing Goods**	
	1. Steel	07
	2. Minerals and Metals	10
	3. Coal and Lignite	09
	4. Power	04
	5. Petroleum	13
	6. Fertilizers	08
	7. Chemicals & Pharmaceuticals	21
	8. Heavy Engineering	13
	9. Medium & Light Engineering	26
	10.Transportation Equipment	12
	11.Consumer Goods	12
	12.Agro-Based Industries	04
	13.Textiles	17
	Total	**156**
III	**Enterprises Rendering Services**	
	1. Trading & Marketing Services	18
	2. Transportation Services	09
	3. Contract & Construction Services	10
	4. Industrial Development and Technical Consultancy Services	14
	5. Tourist Services	10
	6. Financial Services	07
	7. Telecommunication Services	02
	8. Section-25 Companies	08
	Total	**78**
	Grand Total (I+II=III)	**250**

Growth Highlights of Public Enterprises
(as of 2000-2001)

The major growth highlights of Central Public Sector Enterprises, as of 2000-2001, are as follows:

- **Net Profit** increased to Rs.15,653 crores, registering a growth of 9.22% from the previous year.
- **Net Profit Before Tax (PBT)** increased to Rs.24,966 crores from Rs.22,037 crores the previous year, registering an increase of 13.29 %. Profit Before Tax to Net Worth works out to 14.16 %.
- **Profit Before Interest, Depreciation and Tax** increased to Rs.69,288 crores, from Rs.62,212 crores the previous year, thereby registering a growth of 11.37%.
- **Public Sector Enterprises,** as a whole, earned a return on investment (profit before interest and tax to capital employed) of 14.75%.
- **Turn-over/Operating Income** increased by 17.74%. In absolute terms, the turnover increased by Rs.69,028 crores, that is from Rs.3,89,199 crores in 1999-2000 to Rs.4,58,227 crores in 2000-01.
- **Overall Performance as Measured by MOUs** – Out of 107 MOU-signing Public Enterprises evaluated, 49 were rated as *Excellent* and 26 as *Very Good.*
- **Increase in Investment** in Public Enterprises by Rs.21,369 crores, that is, from Rs.2,52,745 crores in 1999-2000 to Rs. 2,74,14 crores in 2000-01, an increase of 8.45%.
- **Capital employed in Public Enterprises** went up by 9.17%, that is, from Rs.3,02,867 crores in 1999-2000 to Rs.3,30,649 crores in 2000-01.
- **Increase in Net Worth** by Rs. 11,470 crores, that is, from Rs.1,64,886 crores in 1999-2000 to Rs.1,76,356 crores in 2000-01, an increase of 6.97%.
- **Foreign Exchange Earnings** by exports of goods and rendering various types of services has increased to Rs.24,772 crores in 2000-01, from Rs.19,737 crores during 1999-2000.
- **CPSEs have declared a Dividend** of Rs.8,260 crores in 2000-01, as against Rs.5,455 crores during 1999-2000, an increase of 51.42%. The dividend pay-out ratio went up to 52.77%, as against 38.06% in the previous year.

- ➢ **The Contribution to the Central Exchequer** by way of excise duty, corporate tax, interest on Central Government loans, dividend and other duties and taxes went up by Rs.4,821 crores, that is, to Rs.60,978 from Rs.56,157 crores during 1999-2000, an increase of 8.58%.

Check Your Progress - 2

Note: 1) Use the space given below for your answer.

2) Also check your answer with the clue given at the end of the Unit.

1. Trace the growth of the Public Sector in India.

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6.4 FORMS OF PUBLIC ENTERPRISES

The question of the *form* of organization and management of Public Enterprises in India has been decided on pragmatic considerations. It was acknowledged, right at the very beginning, that, subject to the observance of certain general principles, the organization of management suitable for each enterprise must, necessarily, be determined with reference to its particular requirements. It is now clearly established that good management should aim at securing in Public Enterprises, the flexibility and effectiveness in operation, which characterizes private enterprise, together with greater technical efficiency and responsiveness to public need, within the broad framework of Parliamentary and ministerial responsibility. Whatever form of organization is adopted, it has not only to ensure efficiency and economy, but also to seek, what Herbert Morrison called "a combination of public ownership, accountability and business management for public ends". Speedy decisions and a willingness to assume responsibility, are essential, if Public Enterprises are to succeed. Thus, decentralization of authority in management also assumes considerable importance. In other words, the form of organization and management in the Pubic Sector has to satisfy:

a) Popular control of policy expediting stability and progress, on the *planning* side;
b) Responsibility, competitive efficiency, administrative and financial autonomy, commensurate with public accountability, on the *managerial* side; and
c) Consumer sovereignty, large-scale production, commercial operation, and industrial democratization, on the *operational* side.

No Single Form of Organization

Because of the pragmatic approach to the problem, no specific pattern of organization for the management of Public Enterprises has been evolved in India. There are four main reasons for this:

a) There was not enough experience available in the country in the science of industrial organization and management;
b) No particular type of organization had shown any outstanding success, the world over;
c) The problem of organizational backwardness had to be tackled with a sense of urgency, so that the conduct of economic activity in the Public Sector is not only above reproach, but its management is also made a worthy model to be emulated by the private sector; and
d) The absence of any doctrinaire approach or rigid social theory, on the subject.

Thus, every form of organization for the management of Public Enterprises has been adopted, taking into consideration the democratic traditions of the country, the peculiar social conditions of the people, and the economic requirements of each particular industry. The main organizational patterns of Public Enterprises in India are described below:

6.4.1 The Departmental Undertaking

The Departmental type of organization is a strictly hierarchical institution at whose head is a Minister answerable to Cabinet and to Parliament for its activities. The administration of the Departmental Undertaking is naturally largely in the hands of senior civil servants, and financial control rests with the Treasury. This is the oldest type of public organization where no distinction is drawn between Public enterprises and traditional Government functions. Generally speaking, the world over, almost all the public utility undertakings, such as the postal service, telegraph and telephone service, railways and the like – have been organized, financed and controlled in much the same way as any other

Central Government department. The Departmental Undertaking is best suited where the main purpose of the enterprise is to provide revenue for the State: as with the tobacco monopoly in Australia, France and Italy, and the Railways in India; or to control consumption, as with liquor monopolies in a number of States in the United States and Canada, and State Trading in food in India. It is equally best suited where goods and services are supplied by the State out of taxation, without charging a price. Departmental Undertakings can also profitably be employed, where secrecy is a virtue, or which are basic to security, peace and order, or where Governmental discretion is required. Wherever this system is in vogue, the undertakings are generally owned and managed as Government Departments, in the form of separate units under Boards of Management, as with the Railway Board.

6.4.2 Characteristics of Departmental Undertakings

The chief characteristics of this form of organization are:

1. The enterprise is financed by annual appropriations from the Treasury, and all, or a major share of its revenues, are paid into the Treasury.
2. The enterprise is subject to the budget, accounting and audit controls applicable to other Government activities.
3. The permanent staff of the enterprise are civil servants, and the methods by which they are recruited, and the conditions of service under which they are employed, are ordinarily the same as for other civil servants.
4. The enterprise is generally organized as a major sub-division of one of the Central Departments of the Government, and is subject to the direct control of the Head of the department.
5. Wherever this applies in the legal system of the country concerned, the enterprise possesses the sovereign immunity of the State, and cannot be sued without the consent of the Government.
6. The most outstanding characteristic of the Departmental Undertaking is its basis on the hierarchical principle, which is governed by three fundamental rules, namely, the chain, the unity of command and the span of control.

6.4.3 Merits of Departmental Undertakings

1. Provides security for activities of a sensitive and strategic nature.
2. Assures the maximum degree of control by a politically responsible Minister.

3. Public accountability is assured.
4. Enjoys a clear relationship with other parts of the Government structure.

6.4.4 Weaknesses of Departmental Undertakings

1. Tends to raise the power of Government to the maximum, and to reduce initiative and flexibility of the enterprise to the minimum. This has resulted in the widespread feeling that departmental undertakings are not suited for commercial activities.
2. Since the staff of Departmental Undertakings are subject to the same rules and regulations applicable to civil servants, it prevents both promotion on merit and prompt disciplinary action, where necessary.
3. Cash receipts have to be put into Government account and cannot be taken out without special sanction.
4. Efficiency is adversely affected by:
   a) Necessity of obtaining sanctions for expenditure and other matters, in every single case;
   b) Cash receipts having to be credited to the Government Treasury;
   c) Departmental methods having to be followed, for purchase of raw material, sale of products and the like.
5. They are generally at the mercy of political parties and ministers who are often incapable of understanding the problems of management in industry and trade.

Many governments have attempted to alleviate some of the weaknesses described above, by introducing new forms of structure and more flexible procedures, with a view to giving autonomy to management. One example is the Board device for taking quick decisions. In India, the Railway Board functions as a Ministry of the Government of India. It has full freedom in shaping and carrying out Railway policy.

6.4.5 A Last Word about Departmental Undertakings

In the words of A.D. Gorwala, "Departmental management must be the rare exception, not the general rule. In many ways, it is the direct negation of the requirements of autonomy. It militates against initiative and flexibility … Nevertheless, in a few types, Departmental management is inevitable. These must be defined, isolated and kept down to the minimum."

6.4.6 Some Departmental Undertakings under the Government of India

- Indian Security Press, Nashik
- Government of India Mints – Aipore, Bombay, Hyderabad.
- Ordinance Factories.
- Silver Refinery Project, Calcutta.
- Integral Coach Factory, Penambur.
- Opium Factory, Neemuch
- Chittaranjan Locomotive Works.

6.5 Government Companies

By 1950, it was acknowledged that the method of recruitment, the regulation of pay-scales, conditions of service and the discipline of employees, the procedure for financial control, the system of accounting, and the methods of procurement applicable to the normal activities of Government – could not obviously be adopted for the efficient administration of industrial and commercial enterprises. Moreover, under the concept of 'mixed economy', when industrial activities in the Public Sector were to be increasingly expanded side by side, and sometimes, in competition with, the private sector, competitive efficiency was the critical necessity. According to A.K. Chanda, this could be achieved "only if the state units were managed on commercial lines; if they adopted commercial forms of accounting; and if they were operated, financed and taxed in the same manner as enterprises in the private sector. The largest measure of financial and administrative autonomy commensurate with public accountability had therefore to be conferred on the agencies responsible for these undertakings".

Besides imparting a commercial basis, some sort of flexibility, freedom of operation and quickness of action for running state industrial enterprises, in India the question of the *form* in which a Public Enterprise should be set up, has also been complicated by two more considerations: First, foreign capital is to be requisitioned, foreign technical help is to be obtained and services of the foreign 'know-how' are to be utilized on a considerable scale for effectively expediting industrial growth in the country; and, second, there is a much weaker tradition of democratic review of the conduct of high Governmental officials. Although Government had established certain industrial enterprises, and in particular, the

Fertilizer Factory of Sindri, the Dry Cole Cable Factory, the Penicillin Factory and the Machine Tool Factory on a Departmental basis, it soon realized that no success could be achieved without association of private interests, foreign or national, in the management of these enterprises. Probably it seemed inappropriate to the Government of India to give foreign shareholders an equity in a fully public corporation, as this was regarded as an arm of the State whose sovereignty was not to be shared with a private party. The Private Limited Company, organized under the same regular company law of the country as a non-governmental concern, provided a convenient way around this difficulty. Accordingly, several Government Companies were established, with the Board of Directors of each company vested with the powers of management in the same manner as in the case of Joint Stock Companies in the private sector. State Governments soon followed suit. This form of organization appeared suitable, considering the needs and requirements of a growing economy.

Since 1951-52, a host of Government Companies have been established under the ordinary company law of the country, in which the Government has varying controlling interests through its ownership of all or some of the shares, by entering into partnership with private company capital. These companies fall into the following four main categories:

1. Companies whose main object is to promote industrial development but which are themselves not directly responsible for production. In this category may be included companies such as the National Industrial Development Corporation, the National Small Industries Corporation and the Indian Handicrafts Development Corporation. These companies promote development of various categories of industries.
2. Industrial projects which are in the construction stage. In this category fall Nangal Fertilizers, the Heavy Electrical Project at Bhopal, the Heavy Engineering Corporation, and the like.
3. Industrial projects in production make up the next category and include companies such as Sindri Fertilizers and Chemicals, the Hindustan Machine Tools, the Indian Telephone Industries, the Hindustan Antibiotics and the like.
4. Trade promotion is the main objective of the fourth category of companies, like the State Trading Corporation.

6.5.1 Characteristics of Government Companies

1. Each company is a *body corporate*, created under a general law, the Companies Act.
2. Unlike the Public Corporation, it is created by an executive decision of the Government, without Parliament's specific approval having been obtained. Its Memoranda and Articles of Association are drawn up by the government, within the parameters of the Companies' Act, and are revisable by the Government.
3. The whole of the capital stock, or 51% of it or over, is owned by the Government;
4. The Government, depending upon the extent to which private capital is participating in the enterprise, appoints all the Directors, or a majority of them.
5. It can sue, and be sued, enter into contract, and acquire property in its own name.
6. Its funds are obtained from the Government, and in some cases, from private shareholders, and through revenues derived from the sale of its goods and services.
7. It is generally exempt from the personnel, budget, accounting and audit laws and procedures, applicable to Government Departments.
8. Its employees, excluding the deputationists, are not civil servants.

6.5.2 Merits of Government Companies

1. It is relatively easy to float a Government Company, since there is no need for special legislation to be passed by Parliament.
2. Structural Flexibility: The Articles of Association can be drawn up in a flexible or permissive manner, regarding matters like capital requirements, number of directors, method of Constitution of the Board, and the like.
3. There is a flexible close relationship between Government and the company. It can be made closer by altering the Articles of Association.
4. Foreign capital and technical know-how is possible. It is advantageous where the Government intends to participate with private parties in commercial undertakings, for purposes of securing capital and technical know-how?
5. Take over of sick units in the private sector. This is a temporary measure, to avoid retrenchment and unemployment.
6. Accommodation of original members, when a business or industry, has just been nationalized.

6.5.3 Weaknesses of Government Companies

1. Evasion of the Constitutional responsibility, which a State-controlled enterprise has in a democratic society, to the Government and Parliament. In the words of P.K. Wattal, "Such industrial undertakings whittle away Parliamentary control over public money".
2. Monopoly of most of the functions of the company by the Government. Consequently, the shareholders and the public interests that may be represented, become largely redundant. The company itself, becomes an extension of a Government Department.
3. The tendency for companies to become "kingdoms within a kingdom". According to Dr Lanka Sundaram, member of the I Lok Sabha, "such managements become absolutely impervious to public control and public criticism".

6.5.4 A Last Word about Government Companies

The Government must clearly recognize that a State Company is not just another ordinary company. Government should see that information about its affairs should be available through Annual Reports to the Legislature, and through it, to the public. The auditing of its accounts should be entrusted to properly qualified and independent persons. The responsibilities of the Minister, in his capacity as shareholder, should be clearly defined. The Company should not be used as a screen to protect from the light of publicity and the arrows of justified criticism, the operations of an irresponsible and power-hungry bureaucracy. Parliamentary control over State-owned Companies should be properly defined. It should be ensured that Companies do not evade control.

As far as the comparative value of a Public Corporation or a Company is concerned, "there is precious little evidence that the Company is either conspicuously better or conspicuously worse that the Public Corporation. Both have certain theoretical advantages, which may or may not be realized in practice; and both suffer from certain diseases, which in underdeveloped countries often assume pathological proportions. In the present state of our experience of the two devices, it is hardly justifiable to say more than that". (A.H. Hansen).

6.5.5 Some Government Companies

- Indian Telephone Industries, Bangalore
- Hindustan Aeronautics Limited, Bangalore
- Bharat Heavy Electricals Limited, Bangalore

- Bharat Earth Movers Limited, Bangalore
- Hindustan Machine Tools Limited, Bangalore
- Bharat Electricals Limited, Bangalore

6. 6 The Public Corporation

The social complexities ushered in by the industrial and urban civilization of the modern times made it necessary for the State not only to regulate business and industry but also to expand its industrial and commercial activities directly at a rapid rate in order to affect stability and progress of the nation, to liberate the consumer from private monopoly and possible exploitation, to provide economic equality and fair shares to all, to maintain high and stable employment, consistent with an acceptable average standard of living, to safeguard national interests and human needs and finally, to ensure efficiency, viability and progress of the economy as a whole. With the State's participation in industry and trade, it became evident that a new institution had to be developed which could be clothed with the power of Government, but which would possess the operating flexibility of private enterprise. The pragmatic and ready-made solution was to adopt the organization with structure and procedure similar to that a large-scale private enterprise, and having a similar minimum duty of not making a long-term financial loss, and inclined to adopt similar policies and to fall into the routine of the market economy – the Corporation.

The corporate device is an attempt, on the part of the State, to create a new structural level between the authority of the State and the topmost operating institution in the market, namely, the firm or combine. The primary objectives of the Public Corporation, as a form of industrial organization and management, are: economically, to achieve and maintain a satisfactory level of economic activity without extraordinary outside assistance; politically, to remain a democratic nation, where State-institutions are accountable to the people; and administratively, to infuse generally constructive trends for future economic development and to ensure efficiency, viability and progress of the economy, as a whole.

In India, with the solitary exception of the Reserve Bank of India established in1934, no Public Corporations existed before Independence. After Independence, Public Corporations came to be established, one after another, by statutes of the Indian Parliament. The earliest ones to be established were the Rehabilitation Finance Corporation, the Damodar

Valley Corporation, the Industrial Finance Corporation and the Industrial Employees State Insurance Corporation, all in 1948, the Indian Airlines Corporation and Air India International in 1953, the State Bank of India in 1955, the Life Insurance Corporation of India and the Central Warehousing Corporation in 1956.

6.6.1 Characteristics of Public Corporations

1. It is an institution, wholly owned by the State.
2. It is a statutory, autonomous, body corporate created by, or pursuant to, a special Act of the Central or State legislature, with a well-defined and clearly demarcated constitution describing its powers, duties and immunities, and having its jurisdiction either over a specific area or over a specific field of economic activity, and prescribing the form of management, and its relationship to established departments and ministries.
3. As a body corporate, it has a separate entity for legal purposes and can sue and be sued, enter into contracts, and acquire, hold and dispose of property in its own name.
4. Except for appropriations to provide capital or to cover losses, a Public Corporation is usually independently financed. It obtains its funds from borrowing, either from the Treasury or the public, and from revenues derived from the sale of its goods and services. It is authorized to earn income, accumulate savings, build up reserves, make its own budget, vary it from time to time as necessary, and to use and reuse its revenues, as it thinks best. Its work is judged by the financial results over a comparatively long term and not from year to year.
5. It is generally exempted from most regulatory and prohibitory statutes applicable to expenditure of public funds.
6. It is ordinarily not subject to the budget, accounting and audit laws and procedures, applicable to non-corporate agencies.
7. In a majority of cases, employees of Public Corporations are not civil servants, and are recruited and remunerated under terms and conditions, which the Corporation itself determines. For promotions, merit, rather than seniority is the general rule.
8. A Public Corporation admits of dichotomy in its administration. The determination of policy is subject to ministerial and treasury control, while the general organization and management of affairs is under the control of the Corporation itself.
9. In its external relationship with the Government, the Public Corporation enjoys by the

basic law of its origin, a greater degree of autonomy from dictation and interference by the Ministry in its internal affairs, which is characteristic of Departmental management.

6.6.2 Merits of Public Corporations

1. Enlarges the unit of administration of industrial or public utility functions, or the conduct of certain social services of an economic character, from the activities of the Government.
2. Separates its finances from the national budget, to ensure the profit-making incentive as well as the public service motive.
3. Ensures freedom from unsuitable government regulations and controls.
4. Provides a high degree of operating and financial flexibility essential for the successful operation of a commercial enterprise.
5. Offers the right combination between *commercial freedom* and *government control*, unlike Departmental Undertakings and Joint Stock Companies which do not possess sufficient legal immunity against adverse government influences.
6. An ideal legal and administrative setup for efficient operation of a commercial enterprise.

6.6.3 Weaknesses of Public Corporations

1. Difficulty of reconciling autonomy with public accountability. In the name of ministerial control and direction, the autonomy of Public Corporations is being infringed upon and eroded.
2. At the same time, removal of political control, may result in significant power being placed in the hands of a small, unrepresentative and self-perpetuating group controlling the Public Corporation.
3. Have tended to become "monopolies without competition", or small kingdoms under the overlordship of Boards of Directors.
4. Have become impervious to public control and public criticism.

6.6.4 A Last Word about Public Corporations

Public Corporations should not be established, except where the need for them has been clearly proved. Their function should be defined as exactly as possible, and their relationship with the Ministries in whose sphere they are located, should be specifically defined. Control should be concentrated on a minimum number of key points, but there must always be safeguards against *empire building* by successful Public Corporations. The Government should periodically undertake a comprehensive review of the pattern of Public Corporations in order to ensure that it is rationally adapted to the changing needs of a developing economy. Otherwise, these institutions will become static and out-of-tune with the requirements of a dynamic society.

6.6.5 Some Public Corporations

- Air India Corporation
- Indian Airlines Corporation
- Oil and Natural Gas Corporation
- National Thermal Power Corporation
- Indian Oil Corporation
- Hindustan Petroleum Corporation
- Nuclear Power Corporation of India
- Bharat Petroleum Corporation
- Power Grid Corporation of India
- Life Insurance Corporation of India

Check Your Progress - 3

Note: 1) Use the space given below for your answer.

2) Also check your answer with the clue given at the end of the Unit.

1. Examine the characteristics, merits and weaknesses of Departmental Undertakings.

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2. Examine the characteristics, merits and weaknesses of Government Companies.

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3. Examine the characteristics, merits and weaknesses of Public Corporations.

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6.7 LET US SUM UP

The development of the Public Sector in India has its own history. Though we won political independence in 1947, we had yet to grow economically independent. It was almost unanimously accepted that without the active and vigorous intervention of the State, there could be no overcoming the colossal backwardness and colonial pattern of economic development and no building of an independent economy. Thus emerged the idea of building a Public Sector to strengthen the economy and take it towards self-reliance.

Through the various Industrial Policy Resolutions of the Government of India, the following objectives of the Public Sector become apparent:

- To help in the rapid economic growth and industrialization of the country and create the necessary infrastructure for economic development.
- To earn adequate returns on investment and thus generate finances for development.
- To promote redistribution of income and wealth.
- To create employment opportunities.
- To promote balanced regional development.

- To assist the development of small-scale and ancillary industries.
- To promote import substitution, save and earn foreign exchange for the economy.

For the effective realization of the above objectives, the Public Sector in India has spawned three different forms of organization, namely. the Departmental Undertaking, the Government Company and the Public Corporation. At the turn of the century, there were 250 Central Public Sector Enterprises in the country, into which the Government of India had pumped an investment of Rs.2,74,114 crores.

6.8 Key Words

Hierarchy - Graded Structure

Isolate - Keep aloof

6.9 SOME USEFUL BOOKS

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2. Rama Shankar Singh, **Indian Economy – Planning, Policy, Development**, (Deep and Deep, New Delhi, 1991).
3. Uma Kapila. ed., **Indian Economy Since Independence**, (Academic Foundation, New Delhi, 2002).
4. Government of India, **Public Enterprises Survey, 1999-2000**, (Ministry of Heavy Industries and Public Enterprises, New Delhi, 2001).
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6.10 ANSWERS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress – 1

1. See Section 6.2.

Check Your Progress – 2

1. See Section 6.3

Check Your Progress – 3

1. See Section 6.4.2, 6.4.4 & 6.4.5
2. See Section 6.5.1, 6.5.2 & 6.5.3
3. See Section 6.6.1,6.6.2 & 6.6.3

Unit-7 AUTONOMY AND ACCOUNTABILITY IN PUBLIC ENTERPRISES

Structure

7.0 OBJECTIVES

After going through this unit, you will be able to:

- ❖ Understand why Public Enterprises require autonomy.
- ❖ Look at the actual experience of Public Enterprises with autonomy and the methods adopted to strengthen the autonomous character of Public Enterprises.
- ❖ Understand why Public Enterprises require accountability.
- ❖ Identify the commonly accepted forms of accountability.

7.1 INTRODUCTION

The corporate form of organization was universally accepted as being superior to the Departmental form for Public Enterprises, because of certain advantages the former had over the latter. These advantages were expected to be two-fold: One, freedom from political control, and the other, freedom from departmental control. It was expected that the enacting statute would limit the powers of the Minister to policy making, and thereafter, the Public Enterprises would be insulated from political influence by being entrusted to the hands of professional managers who would carry on its day-to-day administration in which, according to the terms of the statute, neither Government nor Parliament would interfere. It was expected that being exempt from departmental controls in the matter of personnel, finance, purchasing, accounting and budgeting procedures, Public Enterprises would gain in flexibility, initiative and enterprise. At the same time, *autonomy* did not absolve them from *accountability*, as they were instruments of public policy and were meant to achieve significant social and economic objectives. An analysis of this issue, indeed, presupposes conceptual clarity of *autonomy* and *accountability*.

7.2 WHY AUTONOMY?

The business or commercial aspect of Public Enterprises and the expectation that they should be run efficiently, stress the need for autonomy in their administration, since the success of private enterprises is largely attributed to the autonomy they enjoy. In the case of Public Enterprises, too, their growth depends not only on the quantum of public investment, but also on the intelligence, imagination, confidence and initiative of the managerial personnel, and the discretion they enjoy in managing the enterprise. Autonomy in Public Enterprises is necessary so as to ensure freedom from parliamentary control and treasury control of personnel and finance, which are likely to hamper efficiency.

A United Nations document includes the following 'freedoms' in the word *autonomy,* in relation to Public Enterprises:

- Freedom from the annual appropriation process, at least for operating expenses;
- Freedom to receive and retain operating revenues;
- Freedom to apply operating revenues to operating expenses;
- Freedom from general government restrictions, particularly in the field of expenditure;
- Freedom from normal government appropriation accounting;
- Freedom from normal government audit operations;
- Freedom from central purchasing and contracting requirements; and
- Other related freedoms like freedom to borrow money, freedom to hire and fire, freedom to pay salaries at the discretion of the enterprise, and freedom to control its long-term planning.

These are, at the most, theoretical propositions, for, in practice, the autonomy granted to an enterprise, varies from one company to another. The enabling enactment of the legislature, which creates a Public Enterprise, generally recognizes two separate spheres: One, of 'policy matters', and another, of 'matters related to day-to-day administration'. It is expected that, in normal circumstances, the government should restrict itself to the first sphere, while leaving Public Enterprises to look after the second sphere. It is in this sense that autonomy in Public Enterprises is generally construed.

Autonomy is given to Public Enterprises in India in respect of the following:

- The creation and filling of vacancies, up to a certain level in the hierarchy;
- Fixation of special scales for the posts created by them;
- Taking financial decisions required in day-to-day administration;
- Corresponding directly with executive authorities of the government, such as the Chief Controller of Imports and Exports, the Controller of Capital Issues and the like, except in matters where the Ministry concerned *definitely* desires that the correspondence should be routed through them; and
- Entering into foreign exchange commitments without any reference to the Ministry of Finance, within the limits of prior allocations of foreign exchange.

7.3 ACTUAL EXPERIENCE WITH AUTONOMY

The actual experience of Public Enterprises with regard to the exercise of autonomy sanctioned to them, however, is far from satisfactory. The top managerial posts are filled in by deputationists from the civil service cadres, and this practice affects autonomy adversely. The appointment of Secretaries to Government as members of the Boards of Directors, or the appointment of Secretaries as Chairpersons of the Boards of Directors, bring in the powerful influence of the Ministry concerned on the working of these enterprises. As a result, the enterprise loses its autonomy and is reduced to the status of a government department. The case of the Life Insurance Company well illustrates this point. The evidence presented before the Chagla Commission of Enquiry in the 1970s showed that "the Life Insurance Company was not at all autonomous, as the officials of the Ministry of Finance were treating it as a government department".

The 'deputationist' policy affects autonomy in two important ways. First, the enterprises rely heavily on the government for these posts, and the government officers who man these posts often lack the initiative to take independent decisions. These persons do not look to the interests of the enterprise. Secondly, they bring with them the 'civil service culture', as against the much-needed 'industrial culture', which percolates downward and mars the business character of the entire organization.

Appointment of legislators on the Boards of Directors of these enterprises has also impaired their autonomy. It is also observed that Public Enterprises are obliged to deal directly with the ministry to which they are attached, and there is no effective unit *between* the enterprise on the one hand, and the minister-in-charge on the other, a unit which will work as a buffer and which will prevent direct ministerial interference in the internal affairs of the enterprise concerned.

7.4 METHODS ADOPTED TO STRENGTHEN THE AUTONOMOUS CHARACTER OF PUBLIC ENTERPRISES

Over the years, the Government of India has attempted to remove the snags referred to above, with a view to strengthening the autonomous character of the public sector. Some of the major initiatives taken are listed below:

1. An industrial management pool was created in the late 1950s, to reduce the reliance of the public sector on civil service personnel.
2. On the recommendation of the Krishna Menon Committee, the practice of appointing Secretaries to Government as Chairpersons of Public Enterprises was given up, in a large number of cases.
3. It was decided to restrict the representation of the government on the Board of Directors to only two, one from the administrative ministry and the other from the Finance Ministry.
4. An organization like the Steel Authority of India (SAIL) was established, with a view to bringing all the public and private sector steel plants and coking coal mining units under one common umbrella.
5. A Bureau of Public Enterprises was set up under the Ministry of Finance with a view to providing policy and overall guidance to Public Enterprises, and carrying out continuous appraisal of the organizational set-up, personnel requirements, performance and the like.
6. The government created a Public Enterprise Selection Board to advise it in matters like appointments to senior management positions and on management development.

However, these attempts were neither satisfactory nor successful, and the basic character of the relationship between the Union Government and the Public Enterprises remained as before. The industrial management pool soon became stagnant and no systematic attempt was made to build up a separate public enterprise cadre to man the top managerial positions in Public Enterprises. Although Secretaries to Government ceased to be chairpersons of Public Enterprises in their formal capacity, they continued to enjoy the authority delegated to them earlier. Representatives of the Union Government on the Board of Directors of these enterprises, though reduced to a minimum of two, continued to exercise a disproportionate influence on the deliberations at Board meetings. Even the working of the Bureau of Public Enterprises was not encouraging; instead of working as a 'buffer', it often converted itself into an 'executive authority'.

The feeble attempts made by the Union Government did not yield anything substantial, and Public Enterprises continued to be dominated by the government. They continued to rely heavily on the government in matters of men, money and management, and this affected their autonomy adversely. Some scholars went to the extent of saying that "the autonomy of Public Enterprises had been reduced to a farce"!

Check Your Progress - 1

Note: 1) Use the space given below for your answer.

2) Also check your answer with the clue given at the end of the Unit.

(1) Why do Public Enterprises need *autonomy?*

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2) Describe the actual experience of the Public Sector with *autonomy.* What methods have been adopted to strengthen the autonomous character of Public Enterprises in India?

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7.5 WHY ACCOUNTABILITY?

There are many objectives of accountability. The primary objectives of accountability are:

A. To define the relationship between various authorities so as to focus responsibility;

B. To facilitate co-ordination with related programmes;

C. To ensure consistency in the implementation of the policy of the government;

D. To conduct operations with maximum efficiency and economy and in accordance with the laws;

E. To provide adequate information so as to enable appropriate authorities, and the public at large, to evaluate the effectiveness of the operations; and

F. To apply, from time to time, pressures and sanctions to remove inertia, friction, impediments or obstacles in the way of fulfilment of the objectives.

The rationale of public accountability in Public Enterprises may be explained as follows:

A. Public Enterprises are established with public money.

B. In many cases, for further investment by way of expansion or diversification, Public Enterprises may again draw from public resources.

C. Most of the Public Enterprises are engaged in the production of essential commodities or providing essential services. As such, involvement of public interest is significant. The objective of such enterprises is not simply profit making. These factors necessitate accountability to the public in terms of fulfilment of unique objectives, as well as satisfaction of larger public interest.

D. Being business enterprises, there may be justification for considerable autonomy, but autonomy needs to be accompanied by accountability. There can be no freedom or autonomy unless conditions are ensured for proper use of this freedom.

E. By and large, Public Enterprises are controlled and managed by officials who have no personal or financial stake in the enterprise. Many come on deputation from Government. Under these circumstances, management's accountability is the only way to ensure that autonomy is not misused.

F. Since Public Enterprises come under the overall control of Ministries and Ministers, the possibilities of political interference cannot be ruled out; hence the need for an effective system to ensure accountability. In the case of Public Enterprises, which enjoy a monopoly or semi-monopoly in the market, accountability is essential to ensure that they use their market power in public interest. Thus, pricing, marketing and distribution policies need to be shaped to serve public interest.

G. Finally, Public Enterprises do not provide a continuous opportunity to the public to assess their solvency and financial success. In the absence of such a provision, accountability is the only way out.

7.6 COMMONLY ACCEPTED FORMS OF ACCOUNTABILITY

There are six commonly accepted forms of accountability. They are :

7.6.1 Legal and Administrative Accountability

From legal and administrative perspectives, accountability means 'answerability' of those in authority under separate legislation or Act which governs the form and structure of the Public Enterprise. Every Public Enterprise is governed by a basic constitution contained in the Act embodied by the legislature. Besides, the Act regulates the internal structure and the method of working of the enterprise through its rules and regulations. It demarcates the important organs of a concern and assigns them responsibility along with accountability. The Act also regulates the exercise of power by those in authority in a public enterprise or company and helps in the enforcement of accountability in terms of proper accounting and auditing. The existence of a strong, efficient and independent body of auditors is a must for accountability; further, these corporations have to get their accounts audited by the Comptroller and Auditor-General ot India and submit their balance sheets, profit and loss accounts and annual reports on their working, to Parliament.

7.6.2 Social Accountability

Since an enterprise functions in a social environment, its impact on individuals, groups and institutions is significant. In a welfare state, the management authorities in public enterprises act like trustees not only for owners or shareholders, but also for workers, suppliers, consumers, the immediate community and the general public at large. Further, public enterprises have to integrate their activities with public interest. Their efficient management should always be in conformity with the growing social ideals and social urges. They owe responsibility to employees for better wages, better standards of living, opportunities for improvement and participation at appropriate levels in management. They are indeed, accountable to consumers in respect of the price, quality and quantity and the supply of goods and services produced by them. Lastly, they are also responsible for the physical health and well-being of the locality in which they operate.

7.6.3 Efficiency Accountability

It refers to periodic investigation undertaken by an independent organisation. The organisation looks into the operations of an enterprise in order to promote efficiency in its administration. It exercises supervision and control over Public Enterprises in various matters - administrative, financial, technical and the like. Further it examines, analyses and checks the modes of operation of Public Enterprises in accordance with sound economic, commercial and industrial policies.

7.6.4 Financial Accountability

The concept envisages (1) fixing financial responsibility to a public authority in order to ensure regularity and honesty in the utilisation of funds in accordance with rules and regulations; (2) Building up a sound capital structure of the enterprise; and (3) The execution of plans, programmes and projects with greater expedition, efficiency and economy.

7.6.5 Parliamentary Accountability

Parliament is the trustee of the nation. It is a body of elected representatives of the people. Public Enterprises come under public ownership. They are the instruments of public policy to achieve certain social and economic objectives. As such, they owe a special obligation to render an account of their activities to Parliament. Thus, accountability of Public Enterprises is ensured through parliamentary control. Parliament exercises control over Public Enterprises in various ways - by holding debates in Parliament, by interpellation of the Ministries in Parliament and by the special committees of Parliament such as the Public Accounts Committee, the Estimates Committee and the Committee on Public Undertakings.

7.6.7 Debates

They provide a great opportunity to examine, discuss and review the working of Public Enterprises. Debates can be initiated in Parliament in the following ways :

a) Raising half-an hour discussion on any enterprise.

b) Moving a motion for adjournment on a matter of public importance.

c) Raising discussion, on matters of urgent public importance, for short duration.

d) "Calling attention" of the House to matters of urgent public importance.

e) Moving resolutions and discussing any matter.

f) Discussion on the President's Address.

g) Discussing the report of an enquiry committee, if any.

h) Am[illegible] of the statute under which a Public Enterprise has been set up.

i) Budgetary demands.

j) Discussion on Annual Reports of Public Enterprises.

a) Half an Hour Discussion - Whenever a Member of Parliament is not satisfied with the answer given by a Minister in respect of a particular enterprise, he can ask for Half-an Hour Discussion. The member may make a short statement and the concerned Minister shall reply to it.

b) Motion for Adjournment on a Matter of Public Importance - A Member of Parliament can make a motion for an adjournment of the business of the House with a view to discuss a definite matter of public importance relating to the working of a Public Enterprise. However, the motion may be admitted for discussion with the consent of the Speaker.

c) Discussion on Matters of Urgent Public Importance for Short Duration - A member intending to raise Discussion on Matters of Urgent Public Importance for Short Duration, may write to the Secretary of the Lok Sabha, specifying the matter to be raised, along with reasons necessitating it. Moreover, the notice should be supported by at least two other members, and it should be admitted by the Speaker.

d) Calling Attention to Matters of Urgent Public Importance - A member, with the previous permission of the Speaker, may call the attention of a Minister to any urgent matter in respect of a Public Enterprise. The Minister concerned may make a brief statement, or ask for time to make a statement, at a later hour or date.

e) Resolutions - A member willing to make a resolution is required to give fifteen days' notice of his intention. A resolution may be in different forms such as opinion, recommendation, approval or disapproval. Resolutions provide opportunities to examine the working of Public Enterprises.

f) Discussion on President's Address - The President's Address occasionally provides an opportunity to members to discuss matters relating to Public Enterprises.

g) Discussion on an Enquiry Report - Enquiry committees appointed by the Government to look into the affairs of Public Enterprises submit their reports to the Government. Such reports are annually laid on the Table of the House for debates.

h) Amendment of the Statute under which a Public Enterprise has been Set Up - Whenever a statute pertaining to a particular Public Enterprise is amended, the Members of Parliament get an opportunity to discuss, review or criticise the working of the particular Public Enterprise.

i) Budgetary Demands - During the annual budget, the demands for grants are sanctioned. Then the Members of the House get a full opportunity to discuss every aspect of a Public Enterprise coming within the purview of the Ministry concerned.

j) Annual Reports - The Annual Reports, and accounts of the various Public Enterprises, are tabled before the House. They give rise to short-period debates in Parliament.

7.6.8 Parliamentary Committees

Public Enterprises are complex undertakings. They have to present to Parliament their accounts, statements and annual reports. But Members of Parliament find it difficult to spare the time and energy to scrutinize those accounts and reports. Thus, the need was felt for some means of sifting significant information about the working of Public Enterprises for the benefit of Parliament as a whole. Against this backdrop, two committees came into being: (1) the Estimates Committee and, (2) the Public Accounts Committee. The Estimates Committee is charged with the function of examining in detail the annual budget estimates of the government. On the other hand, the Public Accounts Committee is vested with the responsibility of scrutinizing the financial accounts of the year. In this way, the former is concerned with the stage of proposals and the latter with the stage of results.

The Committee on Public Undertakings came into existence on May 1, 1964 with a view to relieve the Public Accounts Committee and the Estimates Committee from the burden of examining the affairs of Public Enterprises. The main functions of this committee are:

- To examine the reports and accounts of the public undertakings specified in the Schedule;

- To examine the reports, if any, of the Comptroller and Auditor-General on the public undertakings;
- To examine, in the context of autonomy and efficiency of the public undertakings, whether the affairs of the public undertakings are being managed in accordance with sound business principles and prudent commercial practices; and
- To exercise such other functions vested in the Public Accounts Committee and the Estimates Committee in relation to the public undertakings specified in the Schedule by or under the Rules of Procedure and Conduct of Business of the House as are not covered by clauses above, and as may be allotted to the committee by the Speaker from time to time.

However, the following matters do not come within the purview of the Committee for examination and investigation :

- Matters of major Government policy as distinct from business or commercial functions of the public undertakings;
- Matters of day-to-day administration; and
- Matters for consideration of which machinery is established by any special statute under which a particular public undertaking is established.

The Committee on Public Undertakings consists of 10 members from the Lok Sabha and five members from the Rajya Sabha. The Committee functions as a single team regardless of their political affiliations. Moreover, Committee Reports have always been unanimous. Speaking about the work of the committee, the Administrative Reforms Commission observed that the Reports have thrown much light on the problems and the working of Public Enterprises.

7.7 Ministerial Accountability

Parliament has three main functions in relation to Public Enterprises. They are:

1) to pass or amend legislation;
2) to provide finance; and
3) to supervise administration.

Since Parliament is too big and too busy to govern individual enterprises under its jurisdiction, the Minister is vested with specific powers to control the working of Public Enterprises. Thus he is made accountable to Parliament. The powers of the minister are two-fold :

Administrative Powers - It includes appointment and removal of the members or the directors of the Board Management including the Chairman, Managing Director and Member-Secretary. The power to supersede the Board itself, to lay down policy, to frame rules and to issue directions - are all vested with the Minister.

Financial Powers - It includes the appointment of a Financial Advisor to the Board. The person so appointed is not a member of the Board. Moreover, the accounts are to be maintained as per the instructions of the Government. Sometimes, prior permission of the Government is necessary, when the expenditure exceeds a specified limit.

Thus the administrative and financial powers make the Minister very powerful. Moreover, the Minister is fully responsible for the enterprise under his control and cannot escape responsibility for lapses.

Check Your Progress - 2

Note: 1) Use the space given below for your answer.

2) Also check your answer with the clue given at the end of the Unit.

1.Explain the concept of *accountability* in the Public Sector.

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2. What are the commonly accepted forms of *accountability?*

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7.8 LET US SUM UP

It is obvious that there is no happy balance between *autonomy* and *control* in the public sector in India. In fact, it may not be wrong to state that the crisis the sector found itself in, prior to the introduction of the New Industrial Policy in 1991, was largely due to the lack of appreciation of the real objectives behind *autonomy*, and the consequent over-emphasis on *accountability* and *control.*

7.9 Key Words

Autonomy	-	independent
Accountability	-	Responsible or Answerability

7.10 SOME USEFUL BOOKS

1. Ratan Kumar Jain, Management of State Enterprises in India, (Manaktalas, Bombay, 1967).
2. K.R. Gupta, Issues in Public Enterprises, (S.Chand & Co., New Delhi, 1975).
3. K.R. Gupta, Organization and Management of Public Enterprises, (Atlantic, New Delhi, 1978).
4. N.N. Mallya, Public Enterprises in India – Their Control and Accountability, (National, New Delhi, 1971).
5. Praxy Fernandes, Managing Relations between Government and Public Enterprises, (I.L.O., Geneva, 1986).

7.11 ANSWERS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress-1

1. See Section 7.2.
2. See Sections 7.3 and 7.4.

Check Your Progress-2

1. See Section 7.5.
2. See Section 7.6.

Unit – 8 PERSONNEL AND OTHER PROBLEMS, PERFORMANCE AND FUTURE OF PUBLIC ENTERPRISES

Structure

8.0 OBJECTIVES

After going through this Unit, you will be able to:

- Understand Personnel Management in Public Sector Enterprises, and its related problems.
- Assess the performance of Public Sector Enterprises.
- Gauge the future of the Public Sector in India.

8.1 INTRODUCTION

The public sector constitutes the largest employer employing lakhs of persons doing different types of work throughout the length and breadth of the country. As employers of such large personnel. Public Sector Enterprises are expected to perform a dual role. On the one hand, they are expected to ensure that the Directive Principles of State Policy laid down in the Indian Constitution are applied to their staff. In other words, they have to fulfill conditions of efficiency consistent with economy and of 'model employer' in their operation. In order to attain a high level of efficiency, it is essential that the right type of persons are recruited for the jobs, that they are given the proper type of training, and that a sense of discipline is maintained among them. The public enterprises should also try to create just and humane conditions of work.

Some people hold the view that the management of public enterprises should have complete freedom to employ, promote and dismiss staff, and fix grades and pay scales. Their autonomy in this regard is quite wide in some countries. However, the tendency to assimilate employment conditions in public enterprises to those in the civil service is very wide-spread; and even where it is non-existent or weak, the demand that all public enterprises should be subject to certain common standards, enforced by external authority, is quite strong. The important reasons for this are: (1) the prestige and security enjoyed by the civil service, in which public enterprise employees are anxious; (2) the view that wide dissimilarities of condition of different sectors of Government employment are not fair and justified; (3) the need to restrict competition for scarce personnel as between the civil service and the enterprises, and among the enterprises themselves; (4) fear of corruption and nepotism in personnel practices if the enterprises are left completely free. To the extent that such considerations influence public opinion and government policy, management may find itself severely restricted in its attempts to provide the enterprise with a system of personnel management in accordance with its specific requirements. An effort should be made to find the best balance between autonomy and control.

8.2 PERSONNEL MANAGEMENT IN PUBLIC SECTOR ENTERPRISES

8.2.1 Internal Organization

The performance of an enterprise largely depends on the quality of its top-level organization. Generally, the supreme authority (within the limits set by law and ministerial directive) is vested in a Board. Various types of relationship between Board and General Manager are possible. In some cases, he is not even a member of the Board and merely attends its meetings, as and when required to give advice and to report on his stewardship. This arrangement, however, is not satisfactory. A General Manager, being the key man in the organisation, should be member of the Board, and there is a strong case for giving him the chairmanship. If the chairmanship and the general managership are occupied by different persons, unnecessary and energy consuming conflicts may develop between them, unless their personalities and policies happen to be particularly well-attuned. It is very important that the prestige and authority of the General Manager is enhanced in every possible way. The worst situation is one when the board constantly looks over the shoulder of the General Manger and tries to concern itself with matters of day-to-day administration which should be his exclusive responsibility. Such a situation would lead to very unfortunate results. It is likely to arise when the Board (i) has frequent meetings and (ii) divides itself up into a large number of committees for the supervision of particular aspects of the enterprise's work. Full Board meetings more frequently than at monthly intervals require very special justification, and if the Board wants to give itself a committee structure, it should do so on the basis of the broadest possible allocation of responsibilities.

Regarding the structural organisation below the Board level, no uniform pattern can be laid down because the form of organization best suited to a given enterprise necessarily depends on its special needs and requirements. In planning the organizational structure of an enterprise, a number of factors have to be taken into consideration, e.g., the objectives of the enterprise, its size, the nature of the product or products manufactured, geographical location of the enterprise and its markets, skill of available personnel, need for co-ordination with other public agencies, and the degree of public scrutiny and control. For instance, if an enterprise is subject to constant public scrutiny and criticism, its organisation is likely to be highly centralized even though a decentralized structure might be more conducive to efficient working. The problem of devising a sound organisation is much more complex than that of designing a machine. While no single pattern of organisation can be laid down for public enterprises, there are common principles, which should be kept in view in planning organization structure. L. Urwick summarizes the generally accepted principles as follows: (i) a clear division between administrative and executive functions: (ii) provision at every level of a centre of energy, direction and administrative management; (iii) adequate decentralization of executive responsibility and initiative; and (iv) channels at every level for the expression of individual responsibility and the exercise of leadership.

8.2.2 Recruitment

Public enterprises have so far enjoyed almost complete autonomy in regard to the recruitment of their staff. The Government did issue a circular on the subject in April 1961 but it did not have the force of directive, nor was it in the form of model recruitment rules. The Estimates Committee in their 52nd Report (March, 1964) noted this fact and pointed out that many undertakings had not even framed any recruitment rules of their own. Accepting the recommendations of the Estimates Committees, the Government, in November 1964, laid down the general principles which it desired government companies to follow in regard to recruitment of staff. Together with these general principles, the Government also formulated a set of model recruitment and service rules. The Government should take steps to ensure that every public enterprise formulates and adheres to properly framed recruitment and service rules along the lines laid down by the Government.

An important shortcoming in recruitment so far has been the inadequate attention paid in most enterprises to the task of job analysis and the laying down of precise job specification, e.g. degree holders for jobs which can well be done by diploma holders. Another important shortcoming has been the poor phasing of recruitment resulting in promotion bottlenecks and over-staffing, resulting from the inadequate attention that was paid to the need for regulating the staff strength in the beginning.

One of the suggestions which have been put forward is that a Personnel Commission on the pattern of the Union Public Service Commission should be set up for discharging similar responsibilities in regard to the recruitment in the public sector. This has been recommended by the Estimates Committee from time to time. Reiterating their earlier recommendations, the Estimates Committee on National Coal Development Corporation stated, "The Committee consider that the problem is one of reconciling the requirements of public responsibility on the one hand, and adequate business and commercial freedom to the greatest possible extent on the other. They feel that the solution lay in establishing a Personnel Commission similar to the UPSC for public enterprise staffed by people with business experience who understand the personnel needs of the public sector". The Estimate Committee again made recommendations in this regard observing that "such a centralized recruitment for higher posts would enable uniform standards of selection, eliminate competitive bidding for scarce personnel and ensure fairness besides saving the time and work of the public undertaking."

It is, however, felt that established of such a Central Commission independent and outside the public enterprises will seriously affect their autonomy and tend to increase the lead-time in obtaining the personnel urgently required by the enterprises. The delays involved in going through a Central Commission would have adverse effects on managerial performance.

The position in regard to the recruitment of staff for operating public enterprises in developing countries like India is very much different from that in advanced countries. The plants or factories are generally situated in areas with no readily available supply of labour, no ready familiarity with mechanical appliances, no idea of standards of output or productivity and no appreciation of the exacting standards of mass production or even of the occupational hazards. The educational system of the country does not fulfill the requirements of an industrial society. There are problems of cultural adaptation; the workers for industry have to be recruited mostly from the agricultural community life. "In the early stages of industrial development, deficiency of skilled personnel in the new enterprises can hardly be made good by recruitment from others, and even if a few outstanding individuals are available to form the nucleus of a directing staff, or can be borrowed for a time from other countries, there will be a dearth of immediate managers and supervisors able to carry out the policy and train operative workers. The specialized skills of the accountant, the draftsman, the typist, the designer, the production and the maintenance engineer are likely to be in very short supply.

8.2.3 Senior-Level Appointments

At the most senior levels, three types of personnel are mainly required: a directing group which needs administrative aptitude; senior management, which should be familiar with the technology of the enterprise and should be able to organize its operations; and senior technical staff, whose professional advice is crucial to the success of the organization. But the problems of recruiting the senior personnel are extremely difficult because of a general lack of experience even amongst the better-educated members of the community. The civil service is occupied with its own problems and also lacks experience of commerce and industry. It is difficult to find men with required experience, technical knowledge and ability to fill up the constantly increasing number of senior posts. They lack the qualities essential for appointment at senior levels, viz., required qualification, leadership, financial experience, good judgment, organizing ability, technical knowledge, competence in the management of personnel, and willingness to make bold innovations. The only solution, therefore is to select the best available persons with the greatest combination of these qualities.

8.2.4 Junior-Level Appointments

Most of the younger administrators of junior ranks are fine men with fine instincts. They are full of vigour and competence and are not unequal to the job before them, although they are less experienced and get much less guidance and-field training from their superiors. This is mainly because the administration has expanded so fast that training and supervision have become less intensive at all levels. Shortage of proper personnel has also resulted in the lowering of standards.

But this is only one side of the picture. There is another side of the picture which is often clouded by the dust of inefficiency, nepotism and corruption and administrative 'scandals'. There prevails a feeling that the country is rudderless and losing direction and that there has been a failure of leadership. This sometimes tends to generate an atmosphere of cynicism and gloom.

In view of the urgent recruitment needs of the public undertakings, the present recruitment machinery needs thorough overhauling. The present system is outmoded. It belongs to a period of more leisurely Government and is not suitable to the changed conditions of a developmental economy and fast growing public sector. The old motto was caution and economy. The new motto should be efficient administration.

8.2.5 Recruitment on Regional Basis

A very unfortunate development in some public enterprises in recent years has been the deterioration of relations between the local population and management of such enterprises owing to sectional rivalries and communal feelings. This raises the pertinent question as to what extent the recruitment should be made on regional basis.

Since most of the public enterprises are being run essentially by the Central Government, in the recruitment of staff for such enterprises, no preference can be given to any particular area or region or a linguistic group. Debarring candidates from other regions or areas for recruitment to such public enterprises in particular areas will be contrary to Article 16 of the Constitution of India.[1] But so far as state undertakings are concerned, it would be better if the staff recruited in Class III and IV categories is familiar with the regional language, economic conditions and social pattern. The Estimates Committee of the Parliament in its 16th Report recommended that the unskilled labour should be mainly recruited from the local people and that the semi-skilled labour should consist of both local people and others drawn from all parts of the country in keeping with the national character of the organization.

Shortage of trained manpower acts as a severe constraint on the efficient running of public enterprises and the growth of public sector. The top management have to be provided with highly qualified and expert staff groups in the field of planning, finance and accounts, and personnel and labour administration. This gives rise to demand for staff of the following categories: (i) economists and statisticians including experts in market research; (ii) actuaries, chartered accountants, cost accountants and experts in management accounting; (iii) personnel managers and labour welfare officers; (iv) experts in materials management and (v) experts in work study and productivity. It is in these fields that the public enterprises are experiencing great difficult in obtaining suitable persons.

The first step for meeting manpower requirements and formulating adequate training programme is to have a proper assessment of the manpower needs of public enterprises over a projected time span, There is not enough awareness in this regard in public enterprises. Since most of the public enterprises do not have the necessary expert assistance to make fairly accurate estimates of requirements for the future, the Government should get the assessment made by public enterprises examined by a body of experts with the help of the Institute of Applied Manpower Research.

8.2.6 A Coordinated Approach to Training

The subject of training of personnel can be divided into three major categories: (i) non-technical managerial personnel, (ii) specialists required by public undertakings to provide the necessary staff support to the management of public undertakings, and (iii) specialists and technicians needed by undertakings which are pioneers in a new field of industry. So far as the first two categories are concerned, it will probably be advantageous to take full benefit of the training facilities offered by agencies like Management Institutes and All-India Institutes. If public enterprises establish their own training facilities in fields of general management education or professions for which facilities are already available elsewhere, it would lead to duplication. Arrangements will, however, have to be made for in-plant training and induction of new recruits.

At present, while there is a lot of duplication in the programmes offered by the various training institutes, none of them provides the required training facilities in some of the more specialized fields. The Bureau of Public Enterprises, in co-operation with the Ministries concerned, should undertake a review of the existing training facilities. This would help in avoiding duplication of efforts and identifying areas where training facilities need to be extended or increased. The Bureau, along with the representatives of the Ministries concerned and the public enterprises, should examine the curricula of training offered by different institutes to evaluate the suitability of the curricula to the needs of the public enterprises and to ensure that the training imparted is of the required depth and quality.

8.2.7 Promotion Policy

Public enterprises, particularly the Government companies, have been largely free, in framing their own promotion policies. Though the Government laid down general principles and model ru1es in November, 1964, the policies adopted by different public enterprises in this regard do not show a uniform pattern. In some, the promotions are made by an officer in his individual capacity; in other cases, they are made on the basis of recommendations of the Departmental Committee or Selection Board with or without, associating representatives of the Public Service Commission; in some other eases promotion is made solely on the recommendation of the Public Service Commission. In some cases promotions are also made on the basis of seniority, irrespective of qualifications necessary for the post to which promotion is to be made. This diversity of systems and rules leads to anomalies which result in discontentment lack of team spirit, lowering of morale, and decline in efficiency.

(i) The formulation of a satisfactory promotion policy is, therefore, very essential for raising the morale of the workers und efficiency of the enterprise. The promotion policy of an enterprise must satisfy two basic considerations, viz., (i) it should provide reasonable avenues of promotion to the employees at reasonable intervals und (ii) it should enable the management to select competent employees and promote them to responsible positions for which they are suitable. A sound promotion policy should leave no scope for the widespread and intense suspicion which generally prevails throughout the industry regarding the method adopted for selecting men for promotion. It is, therefore, very essential that the avenues of promotion and the methods of selection for higher posts are clearly laid down and known to the staff, that the seniority lists of the staff are expeditiously finalized and circulated amongst them, so to enable them to form an idea about their future prospects of promotion, that the enterprises must be able to forecast the number of people required for different posts to make the employees realize the opportunities lay open to them for improving their prospects if they equip themselves.

8.2.8 Career Development Schemes

The main reason for the unsatisfactory state of affairs in regard to promotions is the fact that public enterprises have not formulated effective career development plans. The National Coal Development Corporation introduced a cadre scheme indicating the number of post as different levels and laying down the minimum experience required for promotion from one level to another. The introduction of the scheme is reported to have considerably helped the Corporation in attracting technical personnel. A few other public enterprises have also taken steps in this direction. But howsoever carefully such schemes are designed, their effectiveness in motivating the employees will mainly depend upon the quantum of promotion initiative and will to improve their qualifications and prospects. Career development schemes will not be of much use in small enterprises where the total volume of prospects is not adequate.

The employees of any commercial enterprise must have the confidence that the top posts in the enterprises are open to them and that they too can obtain these positions by sheer dint of merit and effort. While an enterprise should take advantage of the knowledge and experience of persons appointed from outside and of the periodic acquisition of new blood, it should see that most of the senior and top management posts are filled up by persons from within the enterprises. Every public enterprise should formulate and implement suitable career development schemes in which a phased programme of training at different levels is linked to a ladder of promotion.

8.2.9 Manpower Planning

Overstaffing is believed to be a common malaise in the public enterprises. While most of the public enterprises admit that there is an element of overstaffing in their units many of many of them have argued that the extent of overstaffing is often exaggerated. The costs of overstaffing are heavy and recurrent, and are largely responsible for the higher operating costs of public enterprises.

The main reasons for overstaffing are: (i) lack of manpower planning on a scientific basis in the initial stages: (ii) lack of restraint in the initial stages to restrict recruitment to manifest needs and a tendency to go up in routine to the level of. sanctioned strength; (iii) undertaking construction departmentally and trying to follow too fast a time-schedule of construction: (iv) emulating governmental pattern in staffing offices and recruiting clerical staff and Class IV servants on that scale; (v) failure to lay down appropriate working standards and following traditional and uneconomical practices like the employment of helpers; (vi) the tendency on the part of the managers and officers to play safe and the tendency on the part of all concerned to distribute favours; and (vii) the political and administrative pressures in the way of shedding surplus staff.

8.2.10 Flight of Technical Personnel

Most of the public enterprises suffer from flight of personnel, i.e., large-scale migration of their managerial and technical officers to other enterprises, particularly the private concerns. The main reasons for this are: (i) the general imbalance between demand and supply in the case of qualified engineers particularly those having some years' operational experience or certain kinds of specialized experience; (ii) lack of security in service; (iii) differences in the pay scales offered by enterprises within the public sector itself; (iv) inadequate opportunities for advancement and the greater weight that the public enterprises, as compared with the private concerns, attach to seniority as a qualification for promotion; (v) lack of personnel development programmes and the recruitment of large number of engineers of the same age group in new enterprises clogging the avenues of promotion; and (vi) reasons of morae arising out of dissatisfaction with the certain features of organisation and procedure and the public image of these enterprises.

8.2.11 Personnel Departments

The personnel departments in public enterprises have generally been placed under Officers on deputation from the Central or State Governments. As such, the personnel managers in public enterprises are often not professionally qualified. Some enterprises have had their personnel officers trained in training institutes but a majority of them have not taken even this step. Another common characteristic of the personnel departments of the enterprises is the lack of expertise in fields like industrial engineering, labour relations, manpower planning and the like.

The consequence of these factors has been that the personnel departments as they exist today resemble, more or less, the establishment sections of Government departments. The status accorded to the department also varies from enterprise to enterprise. It deals directly with the chief executive only in a few eases. In most cases, it is attached to a 'line' functionary below the chief executive. For effective personnel administration, the personnel administration should be recognised as a staff function of the highest importance, and the department dealing with it should be properly equipped with the necessary expertise in industrial engineering, labour relations, manpower planning and the like, and attached directly to the chief executive of the enterprise.

8.2.12 Discipline

In recent years there has been a general deterioration in the standard of discipline amongst the staff of public enterprises. An important reason for this is that the conception of the term 'discipline' has not been modified so far to correspond changeover from Police State to the Welfare State. It is very necessary to make suitable changes in the rules and regulations and to introduce a somewhat liberal conception of the term 'discipline'.

Many times the reason for indiscipline among workers is the existence of some grievances and also the feeling among them that they can get these grievances removed only by bringing pressure to bear upon the officers. In other words, the workers feel that justice cannot be obtained through normal channel and it is necessary to bring to bear outside influence. In order to create a sense of security and justice among the workers, the following recommendations, made by the Estimates Committee in the context of Railway Staff, may be adopted by all public enterprises:

(i) Justice should not only be done, but should appear to be done.

(ii) Whatever is due to a worker should be given to him as early as possible.

(iii) There should be no delay in the disposal of representations; a time-limit should be laid down for the disposal of representations at all levels.

(iv) The Minister, Members of the Board, General Mangers and Heads of Department should set apart some time to give a hearing to persons who might desire to represent their cases and draw attentions to matters, which might not otherwise reach them.

Education of staff in the matter of discipline would also go a long way in improving the standard of discipline amongst the staff. The members of the staff, should be thoroughly educated in rules, regulations and procedures, through lectures and by publishing literature on the subject in regional languages, so that the entire staff can know the rules of discipline applicable to them. While giving evidence before the Estimates Committee, on the subject of discipline amongst Railway staff, Shri K. C. Bhakle, Ex-Chief Commissioner of Railways, stated,".... anything that can be done to create *esprit de corps*, to raise the morale and to bring the executives and the staff into closer contact will help. Of course, trade unions have come to stay. To some extent, I have a feeling that social legislation has gone faster than social education and there is not perhaps any ideal before the average man in the services for which he would be prepared to work without consideration of remuneration...."

Check Your Progress - 1

Note: 1) Use the space given below for your answer.

2) Also check your answer with the clue given at the end of the Unit.

1. Describe the major problems of Personnel Management in Public Sector Enterprises.

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8.3 PERFORMANCE OF PUBLIC SECTOR INDUSTRIES

There prevails a popular misperception that the Public Sector is guilty of non-performance, that the entire sector is "in the red" and a drain on public resources, and that the sector should therefore be privatized. The following Tables prove the fallacy of the above arguments:

Table 1: TOP TEN PROFIT-MAKING ENTERPRISES

Sl.No.	Name of the Enterprise	Net Profit (Rs.in Crores)
1.	Oil & Natural Gas Corpn. Ltd.	5228.78
2.	National Thermal Power Corpn. Ltd.	3733.80
3.	Indian Oil Corpn. Ltd.	2720.33
4.	Videsh Sanchar Nigam Ltd.	1778.83
5.	Mahanagar Telephone Nigam Ltd.	1540.18
6.	Gas Authority of India Ltd.	1126.17
7.	Hindustan Petroleum Corpn. Ltd.	1088.01
8.	Nuclear Power Corpn. of India Ltd.	824.99
9.	Bharat Petroleum Corpn. Ltd.	820.12
10.	Power Grid Corpn. of India Ltd.	742.49
	Total	19603.70

Source: Public Enterprises Survey, 2000-2001

The above Table shows the impressive profit registered by ten Central Public Sector Enterprises, during the financial year 2000-2001. The total profit earned by the ten enterprises adds up to a figure of Rs.19,603.70 crores.

Contribution to Central Exchequer

Apart from generation of internal resources, Public Enterprises have been making substantial contribution to augment the resources of the Government of India through payment of dividends, interest, corporate taxes, excise duty, customs and other duties, thereby helping in mobilization of funds for financing the needs of planned development of the country. The contribution of Public Enterprises to the central exchequer, on actual basis, for three years, ending 2000-01, is given in the following Table:

Table 2

Contribution to Central Exchequer on Actual Basis

Sl.No.	Particulars	2000-2001	1999-2000	1998-1999
1.	**On Investment by Central Govt. in PSEs**			
	A. Dividend	3492.38	3765.75	2486.67
	B. Interest	1985.31	2252.81	2563.75
	Total(1)	**5477.699**	**6018.56**	**5050.42**
2.	Taxes and Duties			
	A. Excise Duty	31352.40	26509.68	18765.53
	B. Custom Duty	8645.40	10676.14	9350.04
	C. Corporate Tax	10895.18	7974.52	8479.41
	D. Dividend Tax	670.80	708.38	449.59
	E. Sales Tax	3072.57	1606.07	2351.99
	F. Other Duties and Taxes	863.93	2663.24	2487.35
	Total (2)	**55500.28**	**50138.03**	**41883.91**
3.	**Total Contribution (1) + (2)**	**60977.97**	**56156.59**	**46934.33**

Source: Public Enterprises Survey, 2000-2001

Contribution to the Country's Economy

The Public Sector has come to occupy a key position in the country's economy, in several sectors, especially in the production of fuel, basic metal, non-ferrous metal and fertilizer, as can be seen from the following Table:

Table 5

Public Sector's Contribution in Total Industrial Production

Item	National Production (NP) 1968-69	2000-01	Public Sector's Production (PSP) 1968-69	2000-01	PSP to NP (%) 1968-69	2000-01
Fuel (Million Tonnes)						
Coal	71.40	309.63	12.61	300.52	17.66	97.05
Lignite	3.98	22.95	3.98	22.95	100.0	100.00
Petroleum (Million Tonnes)						
Crude Oil	6.06	32.43	3.08	28.34	50.83	87.39
Natural Gas	NA	29.48	NA	25.88	NA	87.79
Refined Crude	16.55	103.44	8.09	70.97	48.88	68.61
Basic Metals (Million Tonnes)						
Finished Steel	4.58	29.70	2.55	9.61	56.68	32.35
Non-Ferrous Metals (000 Tonnes)						
Aluminium	125.3	642.84	Nil	317.18	Nil	49.34
Primary Lead	1.9	45.5	1.9	33.5	100.0	73.62
Zinc	17.0	178.01	2.7	149.5	80.60	83.28
Fertilizers (000 Tonnes)						
Nitrogenous	563	10964	401	3222	71.23	29.39
Phosphatic	213	3748	53.0	628	24.86	16.75

Source: Public Enterprises Survey, 2000-2001.

The above Tables and figures speak for themselves.

Check Your Progress - 2

Note: 1) Use the space given below for your answer.

2) Also check your answer with the clue given at the end of the Unit.

1. Assess the performance of Public Sector Enterprises in India.

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8.4 FUTURE OF PUBLIC SECTOR ENTERPRISES

The Public Sector is at the crossroads. A sector which was to achieve "commanding heights" and to be a beacon for India's economic growth and development, right from Independence, today stands condemned. It is described as a sector which is over-invested but gives poor returns, over-employed but yields low productivity, has excessive capital equipment but under-utilized capacity, excessive controls but lower efficiency. Today, it is a sector which the Government wants to get rid of.

The New Economic Policy, initiated in 1991, indicated that Public Enterprises have shown a negative rate of return on capital employed. On account of this, many PSEs are being described as "more a burden than an asset to the Government". Further, the Government is of the view that PSEs have not generated internal surpluses on account of heavy losses. In view of these factors, the Government has changed its direction in favour of the private sector and the market economy. The reasons for such a perceptible change in the attitude of the Government, have been identified as follows:

- Public Enterprises seldom take advantage of a competitive profit-maximizing market environment.
- They are encumbered with numerous non-commercial objectives.
- They operate in non-competitive markets.

- Their management is more bureaucratic than entrepreneurial.
- They are impeded by the executive, legislative and even the judicial wings of the Government.
- They lack the initiative to improve performance. (The carrot is stale and the stick is almost broken.
- Their accountability for performance is hazy.
- The final sanction of going bankrupt is non-existent.

Against this background, reforms to improve the performance of Public Sector Enterprises, have been generally recognized, appreciated and identified. A major policy initiative that has initiated by the Government in this direction is the policy of Disinvestment. Disinvestment implies that the Government will sell to the public or private enterprises, part of its holding in PSEs.

The following are the main objectives of the Disinvestment Policy of the Government of India:

- To reduce the financial burden on Government.
- To improve public finances.
- To introduce competition and market discipline.
- To fund growth.
- To encourage wider share of ownership.
- To depoliticize essential services.

Between 1991 and 2001, the Government of India's "Disinvestment Drive" proceeded at a feverish pace. Unfortunately, the cumulative proceeds stood at Rs.23,520 crores, as against a hefty target of Rs.57,500 crores. The proceeds realized against the target set were only 40.9 %.

According to one study, the reasons for such a low proportion of disinvestments proceeds, as against the target set, are as follows:

- Unfavourable market conditions are responsible for the downward trend in disinvestments.
- The proceeds realized through disinvestments were not paid to the enterprise concerned for its expansion and improving efficiency; instead, the Government has been using the proceeds to bridge the budgetary deficit.
- The offers made by the Government for disinvestments are not attractive; moreover, stringent bureaucratic procedures are discouraging private investors.
- The valuation process, procedures and surplus employees – are other major factors. It is estimated that there are 2.2 million employees in the Public Sector, and that nearly 25 % of them are surplus!
- The Government does not have a comprehensive policy on disinvestments.
- The Government is not transparent about its approach towards sequencing the restructuring and the methods of privatization of PSEs.

8.5 LET US SUM UP

Economic reforms in India have given rise to a very critical attitude towards the Public Sector in India. In spite of the fact that the sector is striving to come into its own, it has proved to be no match for the forces of neo-liberal capitalism. These forces operating through multilateral lending institutions like the World Bank and the IMF, are bent upon "disinvesting the State itself", in the name of efficiency and economy. With the Government keen on disinvesting even the profit-making *Navaratnas* and "selling the family silver", the day may not be far off when the epitaph of the Public Sector will be written!

Check Your Progress - 3

Note: 1) Use the space given below for your answer.

2) Also check your answer with the clue given at the end of the Unit.

1. How would you describe the future of the Public Sector in India?

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8.6 Key Words

Co-ordinate - bring the activities together

Hazy - not clean

8.7 SOME USEFUL BOOKS

1. K.R. Gupta, **Issues in Public Enterprises**, (S.Chand & Co., New Delhi, 1975).
2. M.P. Bansal, **Human Resource Development in Public Enterprises,** (RBSA Publishers, Jaipur, 1991).
3. Government of India, **Public Enterprises Survey, 2000-01**, (Department of Public Enterprises, New Delhi, 2002).
4. V. Gangadhar, "Disinvestment in Public Sector Enterprises", **Management in Government,** October-December 2002.
5. Elliott Sclar, **The Economics of Privatization,** (Cornell University Press, Ithaca & London, 2000).

8.8 ANSWERS TO CHECK YOUR PROGRESS EXERCISES

Check your Progress – 1

1. See Section 8.2.

Check your Progress – 2

1. See Section 8.3.

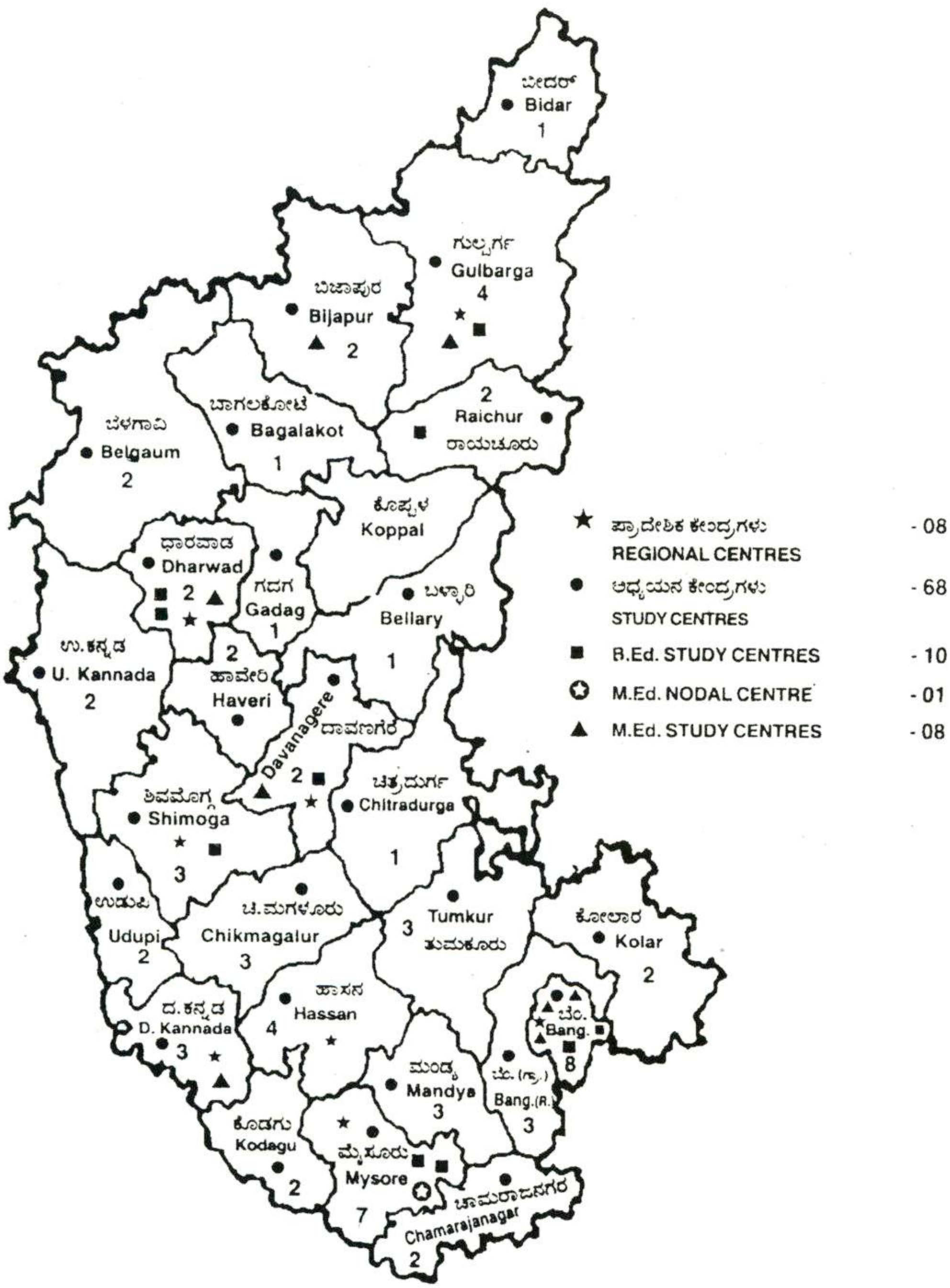
Check your Progress – 3

1. See Section 8.4.

NOTES

ಕರ್ನಾಟಕ ರಾಜ್ಯ ಮುಕ್ತ ವಿಶ್ವವಿದ್ಯಾನಿಲಯದ ಪ್ರಾದೇಶಿಕ ಹಾಗೂ ಅಧ್ಯಯನ ಕೇಂದ್ರಗಳು

Regional and Study Centres of Karnataka State Open University



(ನಮೂದಿಸಿರುವ ಅಂಕಿ - ಜಿಲ್ಲೆಯಲ್ಲಿರುವ ಒಟ್ಟು ಅಧ್ಯಯನ ಕೇಂದ್ರಗಳ ಸಂಖ್ಯೆಯನ್ನು ಸೂಚಿಸುತ್ತದೆ.)

(The Number indicate the total number of study Centres existing in that districts.)

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