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The Role and Performance of Public Sector Enterprises in India

Abstract ::

In a developing economy like India, public enterprises have become an essential part of The programmes of economic development. . It would not be appropriate to use any single measure to estimate the role of public sector in the Indian economy. It would be desirable to use a few indicators like employment, investment, value of output, savings, capital formation and capital stock. The development of basic and key industries, has all along taken place in the public sector. The paper represents the role and performance of Public Sector Enterprises in India. This paper also includes the challenges which the Public Sector Enterprises are facing in an economy.

Introduction ::

Public sector undertaking is a term used for a government -owned corporation. The term is used to refer to the companies in which the government owns a majority (51% or more) of the company equity. A public sector enterprise is a corporation where management control of the company rests with the government; it can be central government or the state governments. Prior to 1947, there was no "Public sector" in the Indian economy. The only instances worthy of mention were the railways, the posts and telegraphs, the port trusts and Aircraft factories and a few state managed undertakings like the government salt factories etc. However in the post independence period the expansion of public sector was undertaken as an integral part of the 1956 industrial policy.

The industrial policy resolution 1956 gave the public sector a strategic role in the Indian economy, for one thing at the time of independence the country was backward and underdeveloped basically an agrarian economy with a weak industrial base, heavy unemployment, low level of savings and investment and near absence of infrastructural facilities, Indian economy needed a big push. This push could not come from the Indian private sector, which was starved of funds and of managerial ability and was incapable of undertaking risks involved in large long-gestation period investments. The public sector was thought of as engine for self reliant economic growth to develop a growth to develop agricultural and industrial base, diversify Indian economy and overcome economic and social backwardness.

Classification of Public Sector Undertakings

Public Sector Undertakings (PSUs) can be classified as Public Sector Enterprises (PSEs), Central Public Sector Enterprises (CPSEs) and Public Sector Banks (PSBs).

The Central Public Sector Enterprises (CPSEs) are also classified into 'strategic' and 'non-strategic'. Areas of strategic CPSEs are:

- Arms & Ammunition and the allied items of defence equipments, defence air-crafts and warships
- Atomic Energy (except in the areas related to the operation of nuclear power and applications of radiation and radio-isotopes to agriculture, medicine and non-strategic industries)
- Railways transport.

Public Sector Enterprises having objects to promote commerce, art, science, religion, charity or any other useful purpose and not having any profit motive can be registered as non-profit company under section 25 of the Companies Act, 1956. This section empowers the Central Government to grant a licence directing that such an association may be registered as a company with limited liability, without the addition of the words 'Limited' or 'Private Limited' to its name. Such companies are also

called as the Non-profit or 'No Profit - No Loss' companies.

Objectives of Central Public Sector Enterprises

In a developing economy like India, public enterprises have become an essential part of The programmes of economic development for the following reasons :

- To Build and Develop Infrastructure
- To Provide a Strong Industrial Base
- To Raise Resources for Economic Development
- To Achieve a Desired Pattern of resource Allocation
- To Secure a Balanced Regional Development
- To reduce Income Inequality

Role of Central Public Sector Enterprises

Public sector has made an important contribution to the economic development of India during the planning period. The passage of Industrial Policy Resolution of 1956 and the adoption of the socialist pattern of society as our national goal further led to deliberate enlargement of the role of public sector. It would not be appropriate to use any single measure to estimate the role of public sector in the Indian economy. It would be desirable to use a few indicators like employment, investment, value of output, savings, capital formation and capital stock.

Employment Generation

There has been a rapid and continuous expansion of employment in public enterprises. There are two important categories of public sector employment:

(a) government administration and defense and other government services like health, education, research and various activities to promote economic development.

(b) public sector proper i.e. economic enterprises owned by the center, state and local government.

CPSEs employed 14.9 lakh people (excluding casual workers) in FY2010 as compared to 15.3 lakh in FY2009, a decrease of 2.8 percent. However, total salaries went up from INR 83.0 thousand crores in FY2009 to INR 90.9 thousand crores in FY2010, a growth of 9.4.

Gross Domestic Product (GDP)

CPSEs growth has been in line with the overall growth of the country, recording a CAGR of 11 percent as against the GDP growth rate of 16 percent CAGR during FY2005-2010. Decline in turnover from INR 12.7 lakh crores in FY2009 to INR 12.3 lakh crores in FY2010 was primarily because of reduction in sales of refined petroleum (INR 74 thousand crores) though turnover in some other industries have been increased e.g. transportation, power generation, etc.

Infrastructure

public sector has made a very valuable contribution in the development of a strong infrastructure and the provision of social and economic overheads, which is an essential precondition for rapid economic growth. This includes development of transport and communication, power, irrigation, education, research and training public health services, housing etc.

Strong Industrial Base

Public sector has also made a notable contribution in laying the foundation of strong industrial base. The development of basic and key industries, has all along taken place in the public sector, These industries include iron and steel, heavy machinery, heavy engineering, heavy electronics, heavy chemicals, minerals and oil, cement, fertilisers, etc. The development of these industries in the public sector has laid the foundation of a strong rapid and broad-based industrial growth and has enabled the country to attain self-reliance in a number of industrial items.

Reduction in Regional Disparities

Public Sector has also made an important contribution in reducing regional disparities Within the constraints of technical and economic considerations, the backward areas have been given

preferences in the matter of location of industrial projects.

Turnover and profits

There has been a phenomenal increase in the turnover of public enterprises in recent years. For example, the total turnover of public sector enterprises in 1980-81 was about Rs 28,635 crores which increased to about Rs. 5,86,140 crores in 2003-2004. Public enterprises in India had for the first time earned a gross profit of Rs. 17.8 crores in 1972-73 and since then their profits have shown a sustained rise. For example, these enterprises recorded a net profit of Rs. 445 crores in 1981-82, which increased to Rs, 2,400 crores in 1991-92 and Rs. 53,168 crores in 2003-2004.

Export Promotion

Some public enterprises have done much to promote Indian exports. The state trading corporations and the minerals and metals trading corporations have done a wonderful job of promoting exports in all parts of the world. Hindustan steel ltd, the Bharat Electronics ltd are some of the public enterprises which are exporting increasing proportion of their output and earning foreign exchange.

Reduction in Number of Sick CPSEs

Number of sick CPSEs has reduced from 111 in FY2003 to 45 in FY2010, post the establishment of the Sick Industrial Companies Act, 1992. Under the Act, Board for Industrial and Financial Reconstruction (BIFR) was created to monitor CPSEs that were not performing well. Out of the 64 CPSEs registered with the Board in FY2010, 47 CPSEs have already been disposed off; of which, 2 have been declared 'no longer sick' and 5 have been dropped off the list due to improved performance. The BIFR is yet to take action on 17 CPSEs.

Performance of Central Public Sector Enterprises:

Policy developments for CPSEs mainly relate to increased delegation of financial and operational powers and revival of CPSEs. With a view to delegating enhanced financial and operational powers to CPSEs, the government introduced the Navratna Scheme in July 1997. In December 2010, the Government introduced the Maharatna Scheme enhancing financial delegation to CPSEs. Coal India Limited and Neyveli Lignite Corporation Limited were conferred Maharatna and Navratna status respectively in 2011 and the number of CPSEs under these categories increased to 5 and 16 respectively.

In December 2004, the government established a Board for Reconstruction of Public Sector Enterprises (BRPSE) to advise on revival / restructuring of sick and loss-making CPSEs. The BRPSE has made recommendations in respect of 62 CPSEs until 31 October 2011. The government, in turn, has approved proposals for revival of 43 CPSEs and closure of two. The total assistance approved by the government in this regard up to 31 October 2011 is ` 25,104 crore (` 3,873.86 crore as cash assistance and ` 21,230.67 crore as non-cash assistance). Out of the 43 CPSEs approved for revival by the government, 13 turnaround CPSEs have posted profit before tax (PBT) consecutively for three or more years.

There were altogether 248 CPSEs under the administrative control of various ministries/ departments as on 31 March 2011. Out of these, 220 were in operation and 28 were under construction. The share of cumulative investment (paid-up capital plus long-term loans) in all the CPSEs stood at ` 6,66,848 crore as on 31 March 2011, showing an increase of 14.8 per cent over 2009-10. The share of manufacturing in gross block, during 2010-11, was 27.8 per cent. The share of mining, electricity, and services in total investment, in terms of gross block, was 23.0 per cent, 25.2 per cent, and 23.2 per cent respectively. The net profit of (158) profit- making CPSEs stood at ` 1,13,770 crore in 2010-11. The net loss of (62) loss-making enterprises, on the other hand, stood at ` 21,693 crore during the same period. The year also witnessed severe financial 'under recoveries' by public-sector oil marketing companies (OMCs) as they had to keep the prices of petroleum products low in the domestic market despite high input prices of crude oil. Foreign exchange earnings of the CPSEs amounted to ` 97,004 crore during 2010-11, which was less than the total foreign exchange outgo of ` 5,22,577 crore.

Performance of CPSEs during 2010-11 (Rs.crore)

Sr.No.	Particuilars	2010-11	2009-10	% Change over previous year
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1	Investment	666848	580784	14.82
2	Capital employed	950449	909285	4.53
3	Total turnover	1473319	1244805	18.36
4	Profit of profit-making CPSEs	113770	108434	4.92
5	Loss of loss-making CPSEs	21693	16231	33.65
6	Net worth	723128	659437	9.66
7	Dividend declared	35681	33223	7.40
8	Corporate tax	43369	38133	13.73
9	Interest paid	38998	36060	8.15
10	Contribution to central exchequer	156124	139918	11.58
11	Foreign exchange earnings	97004	84224	15.17
12	Foreign exchange outgo	522577	424207	23.19
<i>Source : Department of Public Enterprises.</i>				

Challenges Faced by CPSEs

While CPSEs have started witnessing considerable rebound and are poised for growth, there are still some roadblocks which may restrict their full throttle growth, some of these include:

- **Corporate Governance:** There is lack of proper governance structure for CPSEs which often inhibits the transparency and free functioning of these enterprises. Multiple reporting agencies exist with separate agenda, thereby, retarding the growth of CPSEs.
- **Scope for improvement in projects and operations management:** CPSEs need to benchmark their capabilities and offerings with private players in order to remain competitive and aligned to pace of the industry. CPSEs need to adopt an integrated approach to offer a sound value proposition to the market rather than working in isolation
- **Development and management of manpower:** It is utmost important for any organization to have the right pool of resources, and the same holds true for CPSEs as well. Recruitment of right talent, training of manpower, matching the skills and job responsibilities, and keep the workforce motivated can act as a catalyst for a CPSEs growth
- **Lack of financial autonomy:** CPSEs do not enjoy financial independence unlike their private counterparts which often lead to delays in decision making. Formulating a business case for fund raising, seeking approvals, etc. can be an arduous task for CPSEs
- **Difficulty in attracting private investments:** Public-private partnerships can be a key success factor for many CPSEs, thus, it is important for government to create a robust ecosystem which encourages private participation
- **Political interference:** There is often a clash between agenda of political parties and objectives of CPSEs which may impair their growth and autonomy. Being a public enterprise, political parties are likely to have influence on decision making of these CPSEs as well
- **Bureaucracy, red-tapism and corruption:** Lack of proper governance, transparency, etc. may translate into bureaucratic and corrupt environment within some CPSEs, leading to a tarnished image of the entire set of CPSEs.

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