

CHAPTER EIGHT

CONCLUSIONS

All the countries of the world in recent time, have established a wide variety of public enterprises. In some countries, the public enterprises deal with a limited range of activities covering public utilities like transport, tele-communication electricity and water supply.

In India, the public enterprises came to be established in all fields of economy after Industrial Policy Resolutions of 1948 and 1956. India is a federal Government consisting of 22 states. The public enterprises established by the State governments cover, the fields of electricity and passenger road transport. Today public sector in India, both under the Central Government and State Government, is moving forward, covering commanding heights of the economy, and strengthening the industrial base.

The public enterprises in India are required to function in a system of mixed economy, as they operate side by side with the private sector, in a large segment of the economy including steel, fertilisers, cement and machine tools etc.

8.1 DEFINITION :

The term 'public enterprise' in the Indian context covers industrial and commercial activity organised, owned and managed by the Central Government or the state Government. The nature of activity must be of industrial or commercial character to be reflected in a balance sheet or profit and loss account.

The term 'returns' is meant financial returns, usually expressed in ratios. The returns in any enterprise constitute surpluses or profits. The return on capital employed ROCE, i.e. the gross profits as a percentage of capital employed, is considered one of the best measures of performance of any enterprise. Investment consists of paid up capital and long term loans. It is usually known that the effective capital or productive capital is not equal to total investment. The term 'investment' is taken to mean, capital employed, which is composed of net block plus working capital. The definition adopted by the Bureau of Public enterprises is used in this study. In a narrow approach 'efficiency' is implied business efficiency measurable as reflected in the balance sheet.

8.2 EFFICIENCY CRITERIA :

The performance evaluation is more important in public enterprise than in private sector, where profitability is

regarded as a rough and ready measure. Managers in public enterprise need to know how far the enterprise for which they are responsible is improving or deteriorating in performance and how far that improvement or deterioration can be ascribed to their own virtue or vices. The parliament and the public have need of such information.

It is necessary to examine some of the measures of performance. In a seminar at Asian Centre for Development Administration, Kaula Lumpur, Malaysia, in September 1976, the performance criteria for public enterprises are evolved. Profitability as a criterion should be used along with other measures such as contribution to general revenues of the state, surplus generation, and self financing etc. Other measures of performance include, export performance, capacity utilisation, cost of production, productivity, inventory control, and development of indigenous skills etc. The financial ratios are also usually applied to evaluate the performance of public enterprises. They are, turnover investment ratio, the incremental capital out put ratio pay off period, cost benefit, rate of rejection and Dividends ratio, etc.

8.3 THE RETURN ON CAPITAL EMPLOYED :

The return on capital employed, i.e. gross profits as a percentage of capital employed is considered a correct measure of performance. The return on capital employed, ROCE,

is used as a basis for appraisal of the performance, does not reflect real conditions of the enterprise. The measurement of gross profit is not precise, and is affected by numerous factors including depreciation provision. In the measurement of capital employed, the problem of idle assets requires a thorough probe. Hence the return on capital employed should be used as an evaluating device rather than a measuring rod. The changes in ROCE over a period of time for any enterprise may reflect efficiency level, and as an evaluating device it will not be over come by Discounted Cash flow, return on investment, and internal rate of return etc. Even if all of efficiency criteria were capable of exact measurement, the problem would remain of giving one its due weight for one has to consider the cost of product or service per unit of resources, the satisfaction of the consumer in respect of quantities, qualities, and prices, the state of labour relations and the degree to which a spirit of willing co-operation has been created among members of the staff etc.

The various criteria are only the instruments of hope and the attempts to use only one criterion for measuring the performance of an enterprise are likely to be frustrated.

8.4 GENERAL PERFORMANCE OF THE CENTRAL GOVERNMENT UNDERTAKINGS:

The Central government undertakings are classified into seventeen categories like, steel, minerals and metals, coal, petroleum, chemicals and pharmaceuticals, heavy engineering, medium and light engineering, transportation equipment,

consumer goods, agro based enterprises trading and marketing services, transport contracts and construction services, industrial development and technical consultancy services, development of small industries, tourist services and financial services.

The number of Central Government undertakings rose from 90 in 1970 to 153 in 1978. The investment in paidup capital and long term loans rose from Rs. 956 crores to Rs. 12851 crores in 1978.

For the detailed study, 121 running concerns in 1975-76 of the Central Government are selected.

The returns in the Central Government undertakings were poor during the period of study. The number of units showing negative returns reached 33 in 1978-78. The best performers i.e. enterprises earning over 30 p.c., were 13 in the same year. The performance of the public sector units selected under the study was not uniform during three years i.e. 1975-76 to 1977-78 as the co-efficient of variation of ROCE fluctuated between 537 percent to 1497 percent. The general performance of the public enterprises in terms of ROCE was not found to be satisfactory as the average return during the period of 1960-61 to 1977-78 was 5.30 per cent only, as against stated norm of 10 per cent.

8.5 TESTING THE HYPOTHESIS :

Why do some concerns perform better than others ? One of the factors mentioned is age of the enterprise. It is generally believed that profitability picks up after the teething troubles are over. Therefore an attempt is made to test the Hypothesis regarding age and profitability of the enterprise.

The period of working of the Central Government undertakings selected under the study, ranged from 3 year to 18 years and above. As the public sector units reach maturity usually 3 or 6 years of working period, they are expected to show better results.

The null hypothesis stated as there exists no relationship between the age of the enterprise and rate of return on capital employed, has not been rejected even at 0.01 level of confidence.

The testing of null hypothesis dispells the doubts that there is no causal relationship between the length of working period and the returns.

There appears to be no causal relationship between the return on capital employed and gross fixed assets of the public enterprise. The market share also appears to have no effect on the return of the enterprise.

8.6 COMPARISON WITH THE PRIVATE SECTOR :

People tend to make comparison of the performance of the public sector with private sector. It is difficult to make an overall comparison with the private sector because the accounting practices differ, and nature and structure of investment differs, between them.

The return on capital employed in the private sector i.e. large and medium scale jointstock companies in the sample of Reserve Bank of India, has been found to be higher than the public enterprises during the period of 1967-68 to 1974-75. The capital employed in the private sector has been computed as per the definition given by the Bureau of public enterprises to make it a more meaningful comparison. In 1967-68, the return on capital employed in the Central government undertakings was 2.07 per cent as against 19.61 per cent in the private sector. After 1970-71, the returns in both the sectors show up ward trend.

The performance evaluation in public sector is a complex process because of the presence of social obligation and comparison with the private sector is not free from erraneous conclusions.

8.7 IRON AND STEEL INDUSTRY :

The need to extend the state sector was embodied in the Industrial policy Resolutions of 1948 and 1956. In pursuance of these Resolutions the integrated steel mills came to be

established under the public sector, at Rourkela, Bhilai, Durgapur and Bokaro. The Indian Iron and Steel Company has been brought under complete ownership of the Central government with effect from 17-7-1976. The Salem steel Plant and Vizag Steel Plant are under construction. The steel Authority of India Ltd, was set up in 1973 with the responsibility of steel development in the country.

Total investment in paid up capital and long term loans amounted Rs. 1211.75 crores in 1977-78, the output of steel ingots rose from 7.76 lakh tonnes in 1960-61 to 58.05 lakh tons in 1977-78.

The return on capital employed was not satisfactory during the period under study, and the average return in public sector steel mills was \$ 3.04 per cent only during the period of 1962-63 to 1977-78.

The low returns in public sector steel mills were attributed to pricing policy of the government as revealed by Raj Committee report. The study also supported the view as it was found that the prices of most of the products lagged behind by the prices of inputs.

8.8 PRODUCTIVITY AND OTHER MEASURES OF EFFICIENCY :

Labour productivity measured as output per man year has been found declining in all the steel mills including TISCO, the private sector steel plant during the period of 1961-62 to 1976/77.

The private sector steel mill Tata Iron & Steel Company, was placed unfavourably against public sector steel mills in terms of capital productivity, defined as gross value added as percentage of gross fixed assets during the period of 1961-62 to 1969-70.

Labour cost, as a measure of efficiency, was found to be higher in TISCO than public sector steel mills in 1961-62.

The unit cost has shown upward trend in all the steel mills during the period under consideration.

The degree of capacity utilisation one of the measures of performance, was found to be higher in Tata Iron and Steel Company than public sector steel plants during the period of 1961-62 to 1977-78.

8.9 PERFORMANCE OF THE PUBLIC ENTERPRISES PRODUCING GOODS :

The production enterprises cover important economic field like steel, coal and petroleum etc. The general performance of the enterprises producing minerals and metals has not been satisfactory, on the average return was negative i.e. Bharat Aluminium Co. Ltd showed -2.32 per cent average return, Bharat Gold Mines Ltd showed -44.91 per cent average return, Indian Fire Bricks and Insulation Company Ltd. recorded -89.36 per cent average return, Bharat Refractories Ltd showed -9.54 percent average return during the period under study. Poor performance was also recorded in groups

like heavy engineering, and consumer goods. The reasons for poor performance of the enterprises are numerous including shortages in power, raw materials and transport facilities etc.

The over all performance of the petroleum group has been found to be better than the rest of the categories, on the average return ranged from 12 per cent to 36 percent during the period under study.

8.10 PERFORMANCE OF THE PUBLIC ENTERPRISES RENDERING SERVICES:

The public enterprises rendering services cover trading and marketing, transport, tourism and industrial development where the nature of service differs among them.

The general performance of the enterprises engaged in trading and marketing is considered the best as fifteen out of seventeen enterprises recorded positive returns and average return ranged from 8.29 per cent to 119.31 per cent. The working results of other groups like contracts and construction services, transport services and consultancy services were satisfactory.

The over all performance of enterprises rendering services for the promotion of tourism has not been found to be satisfactory in terms of returns on capital employed. The general causes for the poor performance of the enterprises appear to be lack of demand, high operating cost and mismanagement etc. An element of bias is to be tolerated in judging the performance of the public enterprises.

On the whole the service enterprises proved better than production enterprises.

8.11 NEW AREAS OF RESEARCH SUGGESTED :

In spite of growing volume of literature on the subject of public sector, large areas of interest remain uncovered. The study indicates certain areas in the field of public sector for further research.

A comparative study of Indian steel industry and British Steel Industry may be initiated as it appears that iron and steel industry suffered heavy losses in both these countries.

Plant wise studies may be undertaken to find the deeper causes for poor performance in different fields.

The research studies may also be undertaken on cost analysis of inputs and outputs.

The studies may also be initiated to find the degree of monopoly in public sector enterprises, how far this has been responsible for generation of surpluses in the public sector units.

The data on state enterprises are scanty, so research on working of state enterprises may be undertaken.

A comparative study of state enterprises in the fields of industry and trade will enable us to know which state manages the public enterprises in a better way.

The effect of administrative delays on the cost of product^{or} service may be probed into.

The effect of inflation on the rates of return in the public enterprises may be studied.

The research^{es} on micro level in the field of agro industries are welcome.

The problem of revaluation of assets in the public sector may be studied in greater detail.

The effect of depreciation provision on profitability of the firm may be studied.