

CHAPTER ONE

INTRODUCTORY

1.1 DEFINITION :

A public enterprise is a productive entity for organisation which is owned or controlled by public authorities and whose output is marketed.¹

In Indian context according to section 617 of the Indian Companies Act 1976, a government company is that in which not less than 51 per cent of the paid up capital is held by the Central Government or State Government or governments or by the Central Government and partly by one or more State Governments.

The term 'control' in the Indian context is used to refer 'ownership' control only.

The term 'output marketed' is used in the sense that it is not provided free of charge.

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

1. SCOPE (Standing Conference on Public Enterprises) publication : Performance of Indian Public Enterprises, p.1-2.

1.2 NEED FOR PUBLIC ENTERPRISE :

The public enterprises are expected to provide essential infra-structure for rapid industrial development. In most developing countries the public enterprises came to be established in the fields of armaments, air-craft, steel and coal etc.

The assumption of entrepreneurial role by the governments of the newly independent countries was necessitated by the socio-economic philosophy.

The public enterprises were established in strategic industries like steel, heavy engineering, power generation, equipment, shipbuilding, and mining machinery.

In some sectors of the economy the government monopoly could not be resisted for example atomic energy, electronic equipment and TV.

The basic commitment of the government to provide the essential consumer goods at reasonable prices increased the scope of public enterprises to fields of essential drugs, bakeries, hotels and paper.

In India the expansion of public enterprises was attributed to the constitutional obligation. In Directive principles of the constitution, it is stated that the ownership and control of material resources of the community are so distributed as to best subserve the common good and that the

operation of the economic system does not result in the concentration of wealth and means of production to the common detriment, The public enterprises are used as counter weights to the growth of private sector monopoly.

Sometimes the sick private sector industrial undertakings are taken over by the government under social obligation of maintaining employment.

The enterprises established by the British government in India came as a part of legacy to the national government. The nationalisation of foreign companies also increased sphere of public enterprises. Public ownership, public control, and public management are the essential features of public enterprises.

1.3 OBJECTIVES :

One of the principal objectives of a public enterprise is to produce goods or render services to the consuming people at reasonably low prices. It implies that methods of private enterprise cannot be rigidly followed in the public sector. The performance of a public enterprise is made on the basis of need rather than profit.

The government's multiple roles in the economic field such as promotor, buyer, entrepreneur, share-holder, employer, planner and manager are relevant factors contributing to the

growth of objectives. Various other factors such as social conditions, political ideologies, the level of technical progress, legal frame work, administrative efficiency are also important. The concept of democracy, the size of the private sector, rate of capital formation, and the proportion of organised sector, etc. will affect the principles that govern the formulation of objectives.

In India, the public enterprises are assumed to bring in more just and equitable social order. The public enterprises are considered the right levers to the public authority to control and guide the economic activities in the country.

1.4 PUBLIC ENTERPRISES - MOTIVES BEHIND :

In a planned economy, the government's increased participation in industrial activity becomes necessary. The government's involvement in the industry is imperative in the absence of sufficient industrial base and lack of private initiative in certain fields. The adoption of socialistic pattern of society as national objective promoted the government to participate in the industrial and commercial ventures.

The scope of public enterprises is determined by the considerations of political reality and government fiscal policy. The Government has to assume the role of entrepreneur

for the welfare of the people, usually called entrepreneurial substitution, or entrepreneurial support. The expansion of public sector may also be attributed to managerial substitution, implying the taking over of managements of undertakings in private sector.

1.5 PUBLIC ENTERPRISES - OBLIGATIONS

The public enterprises are expected to safeguard a set of often seemingly conflicting interests.

1.5.1 The interest of the Investor :

The government as an investor expects the public enterprises to produce enough surpluses not only to finance self-expansion but also to contribute to general revenues. So the public enterprises are expected to run on commercial lines and produce good profits, by running ~~on~~ efficiently.

1.5.2 The Interest of the Consumer :

The primary aim of the public enterprises should be to provide goods and services to the consumer, at reasonably low prices. The consumers also demand prompt and efficient services. The public enterprises are under heavy obligation to maintain a satisfactory level of efficiency and efficiency involves cost. The public enterprises are to evolve such pricing policy that would satisfy both the consumer and the investor whose interests are apparently in conflict. The evolution of such pricing policy is one of the most difficult tasks.

1.5.3 The interest of the Employees :

The public enterprises are expected to be model employers in providing all maximum modern possible facilities to the employees. Provision of increased welfare expenditure will add to the total cost of production. Increases in costs will press down profit margin. Now Bonus - payment at the rate of 8.33 per cent of the pay, has been made compulsory in all public enterprises including the losing concerns. The satisfaction of workers' demands entails additional burden and increased cost resulting in increased prices. They are also expected to encourage employee participation in management.

1.5.4 The interest of the nation :

The national development plans are intended to reflect the interests of the people, and the public enterprises are expected to serve the nation's interests by achieving the planned targets. The public enterprises are expected to achieve some of the planned goals, i.e., provision of increased employment opportunities, achievement of balanced regional growth, prevention of excess concentration of monopoly power and maintenance of industrial peace and increased productivity etc.

1.5.5 The Interest of the Posterity :

The considerations for the generation still unborn, will guide the public enterprises in the formulation of long range policies, such as self sufficiency and self-reliance, in technology, generation of enough surpluses for self-expansion and to contribute to the general revenues to finance economic expansion, promotion of research and development and to achieve technical innovations to market new and better products at cheaper rates etc. The public enterprises are charged with the responsibility of promotion and development of ancilliary industries in rural centres. They are also expected to extend technology and management services to small scale industries.

1.6 GOVERNMENT POLICIES PROMOTING THE GROWTH OF PUBLIC ENTERPRISES AFTER INDEPENDENCE :

The national government felt the urgent need for re-constructing the entire economy and creating infra-structure for accelerated economic development. The government adopted the industrial policy resolution in 1948.

1.6.1 Some features of 1948 Industrial Policy Resolution.

The Industrial policy resolution adopted in April 1948 removed uncertainty in the industrial sector. The term 'mixed economy' came to be used to describe Indian economy after 1948 Industrial Policy Resolution.

The industries are grouped in to three categories. Category one consists of arms, ammunition, atomic energy and the railway transport exclusively under the monopoly of the state.

The second category is composed of coal, iron and steel, aircraft manufacture, ship building, telegraph, telephone and wireless apparatus and mineral oils, in which all new concerns would be started by the state, and existing units allowed to continue for atleast ten years. It is obvious that these industries will progressively be brought under state control. The state promised adequate compensation for the industries taken over.

The third category consisted of industries of basic importance, open to private enterprise under state regulation. These industries cover Heavy castings and forgings, Heavy plant and machinery, heavy electrical plants, mining of iron ore, managanese ore, chrome ore, gypsum, etc.

machine tools, ferroalloys, and intermediate products, fertilisers, and coal. These industries are subject to state regulation in respect of location and investment.

1.6.2 The Industries Conference :

The resolution adopted and recommended to the government by the industries conference, is worth noting.

"The system of remuneration to capital as well as labour must be so devised that while in the interests of the consumers and the primary producers, excessive profits should be prevented by suitable methods of taxation and otherwise, both will share the product of their common effort, after making provision for payment of fair wages to labour, a fair return on capital employed in the industry and reasonable reserves for the maintenance and expansion of the under -
ting."²

1.6.3 Salient features of Industrial Policy Resolution 1956:

The government of India adopted very important resolution on industrial policy in April 1956, which described

2 Khera, S.S. : Government in Business. National Publishing House, New Delhi, 1977. p. 411.

the area of public sector. The adoption of the socialist pattern of society as the national objective, required the state's increasing participation in all industries of basic and strategic importance. The adoption of industrial policy Resolution of 1956 was an important landmark in the growth of industrial sector, particularly public sector in India.

The industries under schedule A, covering, arms and ammunition, atomic energy, Iron & steel, Heavy castings, heavy electrical plant, coal and lignite, mineral oils, mining of iron ore, and minerals, aircraft, air transport, railway transport, ship-building, telephones and generation and distribution of electricity are reserved for the state initiative. All new units will be set-up by the state only. However, this does not preclude the expansion of already existing private units.

The industries under schedule B, containing minerals, aluminium, machine tools, ferro alloys, basic intermediate products, antibiotics, fertilisers, synthetic rubber, carbonisation of coal, chemical pulp, road transport, and sea transport, will also be under state sector, but the govt. may allow joint ventures in the national interest.

The remaining industries will constitute third category and are generally open to the private initiative, but it is

open to the state to start any industry in this category also. The industrial policy resolution 1956 made the government objective clear in regard to the public enterprise role. The industrial policy Resolution of 1956, laid down the basic principles that govern the government's approach towards industrial development and will continue to govern government's policies to achieve the objective of growth, stability, social justice, and self-reliance in the industrial sphere.

1.6.4 The Industrial Policy, Press Note 1973 :

The important role assigned to the public enterprises was once again stressed in the press note of 1973. The adoption of the socialist pattern of society as the national objective implied the state role in rapid industrial development and state takes direct responsibility for future development of industries, the public utility services should be under public sector. Other industries which require large-scale investment and the private sector could not provide, should also be under state's sector. The state's entry into industries of strategic importance could not be resisted.

1.6.5 The Industrial Policy Statement - Dec. 23, 1977.

The Industrial Policy statement of 1977 states that the public sector has come of age and is expected to provide

counter vailing power to the growth of large houses and gigantic private sector enterprises. The public sector will have an expanding role. The public sector will be effectively used as a stabilising force for maintaining essential supplies to the consumer. The public sector will be charged with the responsibility of development of ancillary industries and promote the growth of decentralised production, and make available its expertise to small sector in rural areas. It will be the endeavour of government to operate the public enterprises on profitable and efficient lines.

1.7 ESSENTIAL CHARACTERISTICS OF PUBLIC ENTERPRISES IN INDIA :

In a very large segment of the economy, the public enterprises operate side by side with the private sector companies. The co-existence of private sector and public sector in the industries like steel, fertilisers, cement and machine tools etc. poses certain special problems including pricing of the products. Not all the public enterprises are in the conditions of monopoly.

There has been a progressive move towards intermediate and finished goods. The public enterprises started manufacturing sophisticated electronic items, photofilms and, .

surgical instruments etc. to meet the needs of growing economy.

Nearly the whole of transportation infra-structure is under the public sector covering railways, airlines, shipping and passenger road transport.

Some public enterprises are providing consultancy and contracting services. The public enterprises are also engaged in major construction activities.

1.8 PROCESS OF EXPANSION OF PUBLIC SECTOR :

The national government inherited the public sector units established by the government under British rule. These public enterprises were mostly public utilities like railways, post and telegraph, mine and electricity and Reserve Bank etc. Some industrial undertakings such as Fertilizers & Chemicals (Traveancore) Ltd., Ganganggar sugar Mills Ltd., Hindustan Aeronautics Ltd., Mayurbhanj Oil and OilProducts Ltd., and Travancore Titanium Products Ltd., etc. were also inherited.³

3 For complete list, see Performance of Indian Public Enterprises, by SCOPE, p. 237

Nationalisation as a policy increased the sphere of public enterprises covering the Life Insurance, Banks, Coal mines, and passenger road transport etc.

Some of the sick private Units were taken over by the government under the social obligation. The National Textile Corporation took over the management of over hundred sick textile mills. The Indian Oil Corporation, acquired majority of shares in ESSO and renamed it Hindustan Petroleum Corporation.

Most of the public enterprises were established by the government in fields of steel, petroleum, chemicals and machine tools etc.

The rapid expansion of public sector was attributed to numerous motives like, provision of merit goods, natural monopoly, self-reliance, prevention of private monopoly, and maintenance of employment etc.⁴

1.9 CLASSIFICATION OF PUBLIC ENTERPRISES

The public enterprises may be classified into three categories, i.e. Departmental undertakings covering railways, posts and telegraphs, telephone, ord/nance, and armament

4 SCOPE - publication : Performance of Indian Public Enterprises, p. 169.

factories and Indian Mint etc. these departmental undertakings are under regular control of the ministries of the Central Government. The second category comprises of public corporations created by the Acts of the parliament and government undertakings registered under the Indian Companies Act. The third category is composed of state enterprises established in different states. These state enterprises cover large areas like passenger road transport, consumer goods and supply of electricity etc. The present study covers the second category, namely, public corporations under the Central Government.

1.10 DEVELOPMENT OF PUBLIC ENTERPRISE

The public sector consists of all the public enterprises established and acquired by the Central Government, and State Governments. The growth indicators usually include size, investment, output and employment.

1.10.1 Size of the public sector :

To-day one sees bewildering growth of public sector units springing up in all parts of the country in all fields of economic activity. The number of public enterprises rose to 149 by 1960-61 from 27 in 1947 and gradually increased to 773 by 1976. The distribution of

public enterprises in 1976 is shown below. These cover state enterprises also.

1. Agriculture	100
2. Mining	31
3. Manufacturing	271
4. Construction	30
5. Electricity	22
6. Transport, storage and communication	67
7. Trade and Hotels	68
8. Banking, insurance and ownership	156
9. Other services	28
	<hr/>
Total	773

1.10.2 Dominance of the public sector :

The dominance of the public sector is reflected in the market share of public sector. The public sector is in full control of production and distribution of large number of industrial items covering lignite, natural gas, petroleum, coal, gold, silver, copper, lead, zinc, newsprint, petroleum products and electronic and transportation equipment etc.

1.11 GROSS DOMESTIC PRODUCT OF THE PUBLIC ENTERPRISES :

The gross domestic product of the public enterprises rose from Rs. 803 crores in 1960-61 to Rs. 3877 crores in 1972-73 at current prices and the share of the public sector rose from 5.71 per cent to 9.15 per cent during the same period. At 1960-61 prices the gross domestic product of the public enterprises rose from Rs. 803 crores in 1960-61 to Rs. 1873 crores in 1972-73. It implies that the GDP of the public sector registered 6.73 per cent annual compound growth rate. The Gross Domestic national product showed 2.93 per cent annual growth rate. It means that Gross Domestic Product in the public enterprises rose at more than double the rate of GNP at constant prices during the period 1960-61 to 1972-73. The increased rate of Gross Domestic Product in the public enterprises justified the higher rate of investment in the public sector.

During the three annual plans i.e. 1966-1969, the rate of investment was low in public enterprises, its share being reduced. As a consequence, the growth rate of GNP at constant prices was almost negligible during the period. This confirms the general belief that higher investment in public enterprise is necessary to increase GNP.

Table 1.1

Gross domestic product of public enterprises
at current prices.

Year	Public sector domestic product (Rs. crores)	Gross domestic product nation (Rs. crores)	Share of the public sector (percentage)
1960-61	803	14071	5.71
1961-62	908	14897	6.10
1962-63	1071	15835	6.76
1963-64	1240	18090	6.85
1964-65	1379	21260	6.49
1965-66	1593	22030	7.23
1966-67	1783	25509	6.99
1967-68	1997	29910	6.68
1968-69	2305	30672	7.51
1969-70	2667	33940	7.86
1970-71	3068	36884	8.33
1971-72	3449	39105	8.82
1972-73	3877	42388	9.15

Source : SCOPE publication : Performance of Indian
Public Enterprises, 1978, p.98, 104.

Table 1.2

Gross Domestic Product at factor cost at
constant prices (1960-61 prices)

Year	Public sector domestic product (Rs. crores)	Gross domestic product nation (Rs. crores)	Share of the public sector (Percentage)
1960-61	803	14071	5.71
1961-62	908	14897	6.10
1962-63	1030	15226	6.76
1963-64	1127	16445	6.85
1964-65	1121	17285	6.49
1965-66	1207	16689	7.23
1966-67	1189	17006	6.99
1967-68	1196	17910	6.68
1968-69	1397	18589	7.51
1969-70	1551	19733	7.86
1970-71	1695	20378	8.33
1971-72	1835	20801	8.82
1972-73	1873	20478	9.15
g	6.73	2.93	

Source : Scope : Publication : Performance of Indian Public Enterprises, 1978, Table X-G-1.

g = annual compound growth rate - percentages.

1.12 NEED FOR THE PRESENT STUDY :

'A Survey of Research in Economics' Vol.V (ed.) by Prof. D.T.Lakdawala, indicates the need for study of public enterprises, indepth. The public enterprises play a vital role in the economic development of the country. In spite of its important role, its performance only received critical comments. There have been very few studies at micro level, and large areas of interest lie uncovered. The individual public enterprises need to be studied in greater detail. The recent studies only assessed the functional role of public sector at macro level. No attempt has been made to focus the attention on inter firm comparisons in the same industry group.

The present study may be deemed to be an attempt in this direction to fill some gaps in the existing literature.

1.12.1 Statement of the Problem

The study reads as "Returns to Investment and Efficiency in Public Enterprises in India."

1.12.2 Explanation of the Key words :

Returns : The term 'returns' is assumed to mean financial returns only. The financial returns are usually expressed in ratios, and returns in any enterprises constitute surpluses or profits. The profitability ratios are

usually used to measure the performance. The return on capital employed ROCE is considered one of the best measures of performance of an enterprise.

Investment : The Investment is an important basic factor in any business activity. It is usually measured by the following formula.

Investment = paid up Capital + long term loans.

The effective or productive capital is not equal to the total Investment. The 'investment' in this study is taken to imply "Capital employed". Two approaches appear to be popular in measuring the capital employed the first is as follows : Capital employed = Gross Block less Depreciation plus working capital. This definition is adopted by the Bureau of Public Enterprises. The second approach is the following : Capital Employed = Gross Block less Depreciation Plus Long term loans or Net worth plus outstanding loans. This definition is also widely used by economists and industrialists.

The arguments for and against the use of these two definitions are the matters of academic interest.

Efficiency : The term 'efficiency' connotes different meanings to different people. In a narrow approach 'efficiency' is implied 'business efficiency' measurable as reflected in a balance sheet of any business undertaking.

Public enterprises : The term 'public enterprise' is used to refer any commercial or industrial undertaking whose performance can be translated into the language of balance-sheet.

1.12.3 Sources and Coverage of Data :

The present study aims at examining the performance of public sector at micro level. The unit of observation is public sector company registered under the Indian companies' Act. The study also intends to evaluate the working of the public sector steel units.

The study is designed to cover a period of 18 years i.e. from 1960-61 to 1977-78, where the data is not readily available the period of study differs.

The main sources of data are the annual reports on the working of industrial and commercial undertakings of the Central Government. As per the nature of investigation, the author has heavily relied on secondary resources covering books, reports and articles published.

1.12.4 Objectives of the Study :

It is difficult to construct a general frame work of objectives in any study. The structure of objectives is determined to some extent by the availability of the data and access to the sources of data. The study is primarily concerned with the economic objectives.

The study attempts to measure the performance of an enterprise by financial instruments. The study makes an attempt to evaluate the working of Iron & Steel Industry in detail. This basic industry occupies the pivotal position both in terms of investment, and output. The iron & steel provides some scope for comparison of public sector and private sector. The present study is restricted to the Central Government undertakings.

1.12.5 Limitations of the Study :

The results of any study are relative to the models under study, given time, and resource, constraints. The data are not available for some years, and the results are out-dated. The data are up-dated in some cases. Another weakness of the study is the absence of employment and wage data. The study is seriously handicapped by the imperfect use of sophisticated techniques. Another difficulty the investigator faced with was inconsistency of data from different sources. As far as possible, the sources of data are noted where ever necessary.

1.13 CHAPTERISATION :

Chapter two is devoted to the discussion of efficiency criteria.

Chapter three explains the general performance of the public enterprises in India. An attempt is made to assess the performance of the public sector in the light of past experience.

Chapter four contains indepth study of the Iron and steel Industry. The structure and growth of Iron and Steel industry are described returns to investment in public sector steel mills are also given pricing policy of Government is also discussed.

Chapter five deals with other measures of efficiency such as productivity trends, capacity utilisation, and cost efficiency etc.

Chapter Six is devoted to the economic performance of public enterprises producing goods.

Chapter Seven summarises the performance of public enterprises engaged in rendering services.

Chapter Eight summarises the conclusions and main findings of the study.