Quest Journals
Journal of Research in Business and Management
Volume 7 ~ Issue 3 (2019) pp: 65-69
ISSN(Online):2347-3002
www.questjournals.org

Research Paper

Performance of Public Enterprises in India

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ABSTRACT:*The public sector in India, since then, has experienced a phenomenal growth both in terms of number and volume of investment. The government has made sustained efforts to break the vicious circle of poverty and underdevelopment by setting up public sector enterprises or by nationalizing certain key industries. The public sector enterprises in the Indian economy are to play an important role that needs no emphasis. A number of PSEs also serve critical functions of furthering the socio-economic objectives of the government and ensuring stability in prices of key products and commodities.The study is carried on with the objectives such as to study the rationale of public enterprises India, the role of public enterprises in India, to evaluate the performance of public enterprises in India and to identify the problems faced by public enterprises in India. The public sector in India has always played a dominant role in shaping the path of the country's economic development. Visionary leaders of independent India drew up a road map for the development of public sector as an instrument for self-reliant economic growth. The public sector has provided the much-required thrust and has been instrumental in setting up a strong and diversified industrial base in the country.*
KEYWORDS:*Public Enterprises,Performance of public enterprises*

Received 06 May, 2019; Accepted 13 May, 2019 © the Author(S) 2019.
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I. INTRODUCTION

Public sector enterprises have been established, managed, and controlled by the Government of India as government companies (under the Companies Act or statutory corporations under the specifi c statues of Parliament). In these enterprises, the Central Government holding in paid up share capital is more than 50 %. The government has used these public enterprises as an instrument for attaining self-reliant economic growth, and over the years they have played an eminent role in the sustainable growth of Indian economy. The importance of public sector in the Indian economy has been recognized since 1948. The public sector in India, since then, has experienced a phenomenal growth both in terms of number and volume of investment. The government has made sustained efforts to break the vicious circle of poverty and underdevelopment by setting up public sector enterprises or by nationalizing certain key industries. The public sector enterprises in the Indian economy are to play an important role that needs no emphasis. A number of PSEs also serve critical functions of furthering the socio-economic objectives of the government and ensuring stability in prices of key products and commodities.

The key factors contributing to stronghold of these enterprises are the need of rapid industrialization with equitable distribution of economic wealth and inadequacies of free market. India witnessed a greater degree of state ownership and increased regulation since second plan that envisaged industrialization as a development strategy. By 1980s the poor performance of government-owned companies was acknowledged and various efforts were made to improve performance. In an era of economic reform process initiated since1991, privatization has become a key component of public sector policy of the government. The survival of PSEs now depends upon performance efficiency and profitability. PSEs contribute to the exchequer by way of dividend payment, interest on government loans and payment of taxes and duties.

Objectives Of Paper
The study is carried on with the following objectives.

- To study the rationale of public enterprises India.
- To study the role of public enterprises in India.
- To evaluate the performance of public enterprises in India.
- To identify the problems faced by public enterprises in India

II. RESEARCH METHODOLOGY

The study is based on secondary data. The data has been collected and compiled from public enterprises survey and economic survey reports and various books, journals and websites.

Rationale Of Pses In India

- Rapid Economic Development

The prerequisite of faster economic development is the creation of infrastructure and the growth of basic industries like power, steel transportation; communication, banking etc. These industries require huge capital investment and involve long-gestation period and so private sector may not be interested to undertake the development of such industries. Further, the private sector lack financial and technical skills to develop such industries. In other words, reluctance on the part of private entrepreneurs to develop key industries due to high risk and low returns necessitated the establishment of PSEs. Government with its capacity to mobilize huge economic resources can develop the industries that are significant for growth prospects of the country. Thus in the earlier phase of development heavy state spending on investment in basic infrastructural sectors and service facilities(for example financial institutions, telecommunication banking etc.) is essential for providing a congenial atmosphere to the private sector to facilitate the process of accelerated development of the economy.

- Reduction of Concentration of Economic Powers

PSEs reduce inequalities of income through welfare programmes, favourable pricing policy towards small industries and supply of cheaper goods to the consumer. Private sector may manipulate the price of essential goods and indulge into quick profit-making by controlling the volume and price of such goods. PSEs prevent such concentration of economic power.

- Balanced Regional Growth

Private sector generally neglects backward regions that lack infrastructure and other basic facilities such as power, roads, telecommunication, skilled labour etc. PSEs set up large projects in these areas and spend huge cost to develop such areas. In this manner PSEs help to achieve balanced regional growth.

- Employment Generation

The adequate generation of employment opportunities is a major objective of the public sector enterprises. This sector has provided direct employment to more than 80 percent of organized labour.

- Import-Substitution and Export-Promotion

In the initial period of development foreign exchange constraints exist due to huge imports of capital goods and low exportable surplus. PSEs produce importable goods domestically which tend to save precious foreign exchange and facilitate exports.

- Resource Mobilization

PSEs mobilize savings through large network of banking and financial institutions. The profits of PSEs are ploughed back into developmental activities of the country. Further, PSEs contribute to the Government's exchequer through payment of tax and dividends.

Public Sector Reforms

The Industrial policy resolution of 1956 has been the guiding factor which gave PSEs a strategic role in the economy. Massive investments have been made over the past five decades to build public sector. These enterprises have successfully expanded production, opened up new areas of technology and built up a reserve of technical competence in various areas. Initially, public sector investments were in the key infrastructure areas, but later on it begun to spread in all areas of he economy including non-infrastructure and non-core areas. Since 1980's, the performance of state owned enterprises has been undergoing a close scrutiny in India. The existence of huge fiscal deficit made it difficult to raise funds at home and abroad. It was felt that the PSEs were absorbing a large chunk of government funds in the form of subsidies, which has resulted in the misallocation of resources brought about by diversion of savings. In order to overcome these problems government allows relaxation in the controls over PSEs and the emphasis was put on efficiency and internal resource generation of these enterprises. The public sector reforms in India since 1991 involves structural changes that aim at increasing efficiency, decentralization, accountability and market orientation of these enterprises.

The important reform measures introduced in the recent years are:

- Allowing Managerial Autonomy

Government has adopted empowerment of PSEs as a continuous process. The management of PSEs has been given operational autonomy in respect of human resource development decisions like recruitment, promotion and other service related decisions. The profitmaking enterprises which don't depend on the budgetary support of the government identified as Navratnas and miniratnas are given enhanced powers to take investment and project –related decisions such as decisions relating to capital expenditure, raising capital from the market, mergers and acquisitions etc. Board of Directors of PSEs exercises the delegated powers subject to the broad guidelines issued by Government. This would help PSEs to mitigate problems relating to delay in decision- making and help to improve the competitive strength of these enterprises.

- Performance-based Accountability through Memorandum of understanding (MOU) System

MOU is an instrument that specifies mutual responsibilities of two parties who sign it. It is signed between government and management of PSEs. MOU clarifies objectives and targets expected form the management and performance evaluation takes place with reference to these objectives. Thus it allows management by results and objectives rather than management by controls. Further an attempt is made to evaluate performance of PSEs on the basis of financial and operational performance indicators such as sales, growth in sales and return on assets, dividend pay-out ratio and earning per share.

- Manpower Rationalization

PSEs for long have been suffering from over manning. Voluntary Retirement Scheme (VRS) has been introduced in a number of PSEs to shed the surplus manpower. In order to provide security net to those who opt for VRS, Counselling, Retraining and Redeployment (CRR) scheme has been launched. CRR aims at retraining employees who have opted for VRS so that the employees can adapt to new vocation after their separation from PSEs.

- Professionalism in Management

In order to improve efficiency, Board of Directors (BOD) of PSEs has been strengthened with the induction of professional managers. The number of Government nominated directors has been reduced. Management personnel are allowed greater operational autonomy in implementing the policies of the board. Efforts are being made to reduce political and bureaucratic interference in the working of public sector enterprises.

- Portfolio Management

The portfolio of the public sector investments has been thoroughly reviewed to focus the public sector on strategic, high-tech and essential infrastructure. The new industrial policy 1991 adopted the policy of de reservation that allowed the entry of private sector in the activities exclusively reserved for public sector. The list of industries reserved solely for the public sector which used to cover 18 industries, including iron and steel, heavy plant and machinery, telecommunications etc. has been drastically reduced to two: atomic energy generation, and railway transport. These reforms mainly aim at providing competition to the public sector.

- Transparency in Operations of PSEs

Corporate Governance Code has been formulated to bring greater amount of public accountability and transparency amongst PSEs in an era of competitive environment. Corporate governance refers to ethical business and transparent conduct of management of organization so as to protect the interest of stakeholders (i.e. shareholders, employees, suppliers etc.).These are the guidelines that management is required to follow in their decision-making process. The code meet the regulatory framework, builds harmonious relations with the stakeholders, provide high degree of accountability to the parliament and the public and ensures transparency in decisions. Further, PSEs are also subject to Right to Information Act (RTI).

- Revival and Restructuring of Sick PSEs

Efforts are made to modernize and restructure PSEs and revive sick industries. The chronically sick industries have been sold off or closed. Companies having potential for revival have been allowed to be turned around by private sector. In 2004, Board for Reconstruction of PSE (BRPSE) has been created to take up restructuring and revival of PSEs. BRPSE is an advisory body which provides measures to strengthen, modernize PSEs. It advises government on disinvestment or closure or sale of chronically sick or loss making units that cannot be revived. It also monitors incipient sickness in PSEs so as to detect their problems at the initial stage that can result into sickness at the later stage.

- Allowing PSEs to Enter Capital Market

In an era of reduced budgetary support PSEs have been allowed to raise equity finance from the capital market. This has provided a market pressure on PSEs to improve their performance. As investors keep on monitoring the shares listed on stock exchange and market price movements reflect the performance of the company so management remain alert of their operational efficiency. Further, the listing of PSEs share in the market has offered new opportunities to the investors that have also improved the trading activity of the stock exchanges in India. In the year 2007, 44 central PSEs were listed on the stock exchange. Some of PSE shares are enlisted on the international stock exchange (for example MTNL share is listed on New York stock exchange).

- Modernization

The new policy provided for modernization of plants, rationalization of productive capacity and changes in the product mix of PSEs. Further PSEs have been allowed to enter into technology joint ventures and have alliance to obtain technology and know-how. National Investment Fund has been established in 2005 to provide funds for revival and capital investment requirements of PSEs. The disinvestment proceeds will be channelized to this fund. This would help them to develop competitive strategy based on market needs.

- Disinvestment and Privatization

Disinvestment in India primarily aims at improving corporate efficiency, financial performance and competition amongst PSEs. It involves transfer of Government holding in PSEs to the private shareholders. Disinvestment introduces competition and market discipline on PSEs and depoliticizes the decision-making process.

Role Of Public Sector Enterprises In India

Public sector enterprises have laid a strong foundation for the industrial development of the country. Public sector units are 'the temples of modern India.' Since India's independence, public sector enterprises have contributed significantly towards the growth of the Indian economy. It has significant contribution to the country's economy by filling the gaps in the industrial sector, generating employment and balanced regional development.

The expansion of the public sector was aimed at the fulfillment of our national goals i.e. the removal of poverty, the attainment of self-reliance, reduction in inequalities of income, expansion of employment opportunities, removal of regional imbalances, acceleration of the pace of agricultural and industrial development, to reduce concentration of ownership and prevent growth of monopolistic tendencies by acting as effective countervailing power to the private sector, to make the country self-reliant in modern technology and create professional, technological and managerial cadres so as to ultimately rid the country from dependence on foreign aid. But these motives could not be achieved up to the desired extent. That is why government is on the spree of privatization of these enterprises.

The Industrial Policy Resolution in 1956 gave the public sector enterprises a strategic role in Indian Economy and the public sector was thought of as the engine for self-reliant economic growth to develop a sound agricultural and industrial base, diversify the economy and overcome economic and social backwardness.

Public sector enterprises were set up to serve the broad macro-economic objectives of higher economic growth, self-sufficiency in production of goods and services, long term equilibrium in balance of payments and low and stable prices besides meeting certain socio-economic obligations. While there were only five Central Public Sector Enterprises (CPSEs) with a total investment of Rs. 29 crore at the time of the First Five Year Plan, there were 320 CPSEs (excluding 7 Insurance Companies) with a total investment of Rs. 11,71,844 crore as on 31st March, 2016. The CPSEs are key and strategic actors in the nation's economy providing essential goods and services and holding a dominant market position in critical sectors such as petroleum, mining, electricity and transportation. They also operate in competitive markets such as telecommunication, hospitality etc. The CPSEs are increasingly under pressure by both the government and competition to achieve their goals more effectively and efficiently. A large number of CPSEs have been set up as Greenfield projects consequent to the initiatives taken during the Five Year Plans.

Performance Of Public Sector Enterprises In India

The overall performance of CPSEs in India has shown improvement during the financial year 2015-16 over the previous year despite declining commodity prices in the global economic scenario. The overall net profit of the 244 operating CPSEs went up by 12.54% to Rs. 1,15,767 crore in 2015-16 from Rs. 1,02,866 crore in 2014-15. The CPSEs have been making a substantial contribution to the Central Government through payment of dividend, interest, corporate taxes, excise duties etc. The contribution by the CPSEs through these avenues increased by 38.63% to Rs. 2,78,075 crore in 2015-16. CPSEs have an unique place amongst the State Owned Enterprises (SOE) of the world. Many of the 244 operating CPSEs are the leading companies of India. CPSEs are, moreover, spread over the length and breadth of the country, fulfilling various macro-economic objectives and are complex organizations dealing with wide stream of new technology, market and services and employ a large workforce. The CPSEs are categorized into 23 cognate groups. The CPSEs have been serving the various macro-economic objectives of higher economic growth, equilibrium in balance of payments, infrastructure development and lower prices. In this respect, they are a distinct entity of corporate India. Moreover the Maharatna and Navaratna CPSEs constitute the elite companies of India in sectors like, coal, petroleum, steel, heavy engineering, power supply, telecommunications and transportation services.

The total employee strength in CPSEs stood at 12.34 lakh (excluding contractual workers) in 2015- 16 as compared to 12.91 lakh in 2014-15. The total strength of employees in CPSEs has gone down by 57,560 persons due to superannuation, voluntary retirement etc. The salary and wages in all the CPSEs, at the same time went up during the year from Rs. 1,26,777 crore in 2014-15 to Rs. 1,28,263 crore in 2015-16 showing a growth of 1.17%. However, the per -employee turnover of CPSEs has decreased from Rs. 1.55 crore in 2014-15 to Rs.1.50 crore in 2015- 16.

While CPSEs play a significant role in the growth of the Indian economy. They are also affected by the overall growth in the economy. The Gross Turnover of CPSEs has decreased in 2015- 16 by 7.04% to Rs. 18,54,667 crore from Rs. 19,95,176 crore in 2014-15. The profit of profit making CPSEs increased by 10.86%

to Rs. 1,44,523 crore in 2015- 16 from Rs. 1,30,364 crore in 2014-15. The loss of loss making CPSEs increased by 4.57 % to Rs. 28,756 crore from Rs. 27,498 crore during the same period. Aggregate net profit reported by all 244 CPSEs is Rs. 1,15,767 crore as against Rs. 1,02,866 crore reported in the year 2014-15, thus showing a growth in overall profit of 12.54% as against a reduction of 19.82% in 2014-15.

During the year 2015-16 the number of profit making CPSEs have increased to 165 from 159 CPSEs in previous year and the number of loss making CPSEs have increased from 76 to 78 during the same period. One CPSE, namely Food Corporation of India neither earned profit nor incurred loss during 2014-15 and 2015-16

Problems Of Pses In India

- Defective Pricing Policy

The prices of goods and services produced by the PSE in India for long have been determined by Govt. under administered price regimes (APR). In post-91 era with intense market competition Government has dismantled the APR in most cases and PSEs have been given independence to fix their own price competitively. In the recent years various price regulatory commission for regulating prices in best interest of both consumers and producers have been established whose recommendations are applicable both for private and PSEs. Government on its part continues to be sensitive to the needs of the poor and price level in the economy. Any rise in price generally warranted by market conditions is avoided. Pricing of petroleum is an example in this respect. The rise in the international price of crude oil is hardly passed on to the consumers. The social approach set prices in PSE causes a lower returns and financial losses.

- Excessive Political Interference

There exists considerable political interference in the operational aspects of PSEs in terms of appointment in the management, pricing of products, location of projects. The decisions are guided by political considerations and not by economic factors.

- Delays in Decision-Making

The red-tapism and bureaucratic management causes delay in decision-making of these organizations. PSEs thus fail to take advantage of opportunities thrown open by the market.

- Over-Manning

The public sector enterprises are overstaffed. It increases cost of production and inefficiency in the organization.

- Lack of Accountability

The appraisal system lack performance-based remuneration system. The system lacks incentives to improve and penalties for delays and failures. The security of service makes them lethargic and reduces creativity. This lack of accountability causes inefficiency and losses in the public enterprises.

- Under-Utilization of Capacity

The public enterprises operate at less than their full capacity and produce lower than potential output. This increase the cost of production as the fixed cost is distributed over small output.

III. CONCLUSION

The public sector in India has always played a dominant role in shaping the path of the country’s economic development. Visionary leaders of independent India drew up a road map for the development of public sector as an instrument for self reliant economic growth. The public sector has provided the much-required thrust and has been instrumental in setting up a strong and diversified industrial base in the country. Keeping pace with the global changes over a period of time, the PSEs in India also have adopted the policies like disinvestment, self-obligation/MoU, restructuring, etc. PSEs undoubtedly, since inception, have extended their eminent contribution in bringing up the industrial base for the holistic development of Indian economy. For ensuring that the Indian economy continues to scale new heights and emerges as an economic superpower, it is imperative for the PSEs to continue to demonstrate global competitiveness and achieve market leadership.

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Mathews John" Performance of Public Enterprises in India" Quest Journals Journal of Research in Business and Management, vol. 07, no. 03, 2019, pp 65-69