

# PUBLIC SECTOR ENTERPRISES IN INDIA: PERFORMANCE, PROFITABILITY AND FINANCIAL POLICY IN PUBLIC SECTOR UNDERTAKINGS

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**ABSTRACT :** Prior to Independence, there were few 'Public Sector' Enterprises in the country such as military equipment production, postal telegraphy, rail transport aircraft, port trusts, ordinance factories under government control these were all departmental ventures. PSUs have contributed significantly to the Indian economy. The present industrial and economic structure of the country is to be extent the result of the contribution of PSUs. The Government has made a clear commitment to empowering the PSEs and their managements. Financial management of resources in terms of profitability constitutes, by far, the most important aspect of operational efficiency of an enterprise. A public sector enterprise can discharge its social obligations better if it operates in a profitable manner. This paper presents a study the Performance, Profitability and Financial Policy in public sector undertakings of Public Sector Enterprises in India.

**Keywords :** Public Sector Undertakings, Profitability, Efficiency, Financial Advisor, mobilization.

## INTRODUCTION

India is a developmental country, in which development of public sector undertakings like other developmental countries was considered an essential reality. Mass poverty, population explosion, continuous increase in unemployment, invisible unemployment, unmodified natural resources, weak infrastructure, lack of social and economic institutions in line with development, excessive economic and social inequality, etc. are many problems that can be solved by expanding public sector is considered possible. The existence of central government public sector undertakings (PSUs) in India existed even before independence, but it was limited to a few areas, such as military equipment production, postal telegraphy, rail transport aircraft, port trusts, ordinance factories under government control these were all departmental ventures.

Industrial policies of 1948 and 1956 emphasized the establishment of public sector industries. The socialist pattern of development adopted by the government also encouraged the establishment of public undertakings. As a result, Hindustan Shipyard, Hindustan Machine Tools, Sindri Fertilizer, Hindustan Antibiotics, Chittaranjan Locomotives, Indian Telephone Industries, Durgapur, Rourkela and Bhilai Steel Plant, Oil India, Heavy Engineering Corporation, Fertilizer Corporation, Life Insurance Corporation of India, State Trade Corporation, Security Paper Mill at Hoshangabad, HMT Factory at Bangalore, Oil Refinery at Koyali and Preseason Entertainment Factory at Kota were opened. Public sector undertakings currently play a major role. These ventures include departmental enterprises, financial institutions and non-departmental enterprises or government companies.

There has been appreciable growth in investment in Public Sector Enterprises (PSEs) over the years. In 1951, there were only 5 public sector enterprises with an investment of Rs. 29 crore which has increased to Rs. 2,74,114 crore in 242 enterprises as on March 31, 2001. According to the Public Enterprise Survey 2001-02, there were 230 working PSEs with a total investment of Rs. 3,24,532 crore. The contribution of PSEs during 2000-01, there were 230 working PSEs with a total investment of Rs. 3,24,632 crore. The contribution of PSEs during 2000-01 in country's total production of lignite was 100%, in coal about 97%, in petroleum about 81% and in non-ferrous metals viz., primary lead and zinc about 80%. The internal resources generated by PSEs during 2000-01 were Rs. 37,802 crore. The PSEs have also been making substantial contribution to augment the resources of Central Government through payment of dividend, interest, corporate taxes, excise duties etc., thereby helping in mobilisation of funds to meet financing needs for planned development of the country. During 2000-01, contribution to the Central Exchequer by the PSEs through these resources amounted to Rs. 60,978 crore.

As on 31 March 2017, there were 257 central government undertakings with a capital appropriation of 2144924 crore. Of these 257 undertakings, 256 were functional, out of which 174 have profit and the remaining 82 have lost. In 2016-17, these ventures had a net profit of Rs. 152647 crore, while in 1973-74 the profit was only Rs 149 crore and in 2007-08 it was Rs 81274 crore. In 1950-51, there were only 5 Central Public Sector Enterprises in India, as compared to 234 in 2001-02 and 257 in 2016-17. During the planning period, the development of public sector undertakings in the Central Government has taken place in the following manner.

Year	Number of Undertakings	Total Appropriated Capital (Rs in crore)
1950-51 (First Year First Plan)	5	29
1955-56 (last Year First Plan)	21	81
1960-61 (last Year Second Plan)	47	948
1965-66 (last Year Third Plan)	73	2410
1973-74 (last Year IV Plan)	122	6237
1978-79 (last year fifth plan)	169	15534

1984-85 (last Year Sixth Plan)	215	42673
1989-90 (last Year Seventh Plan)	244	99329
1997-98 (last Year Eighth Plan)	242	213610
2001-02 (last Year Ninth Plan)	234	331372
2003-04 (last Year Twelfth Plan)	242	349209
2007-08 (last year twelfth plan)	214	724009
2011-12 (last year eleventh plan)	225	1337821
2016-17 (last year twelfth plan)	257	2144924

### ROLE OR ACHIEVEMENTS OF PSUS IN INDIAN ECONOMY

Public sector enterprises have contributed significantly to the Indian economy. The present industrial and economic structure of the country is to be extent the result of the contribution of public sector undertakings, which can also be called achievements of public sector undertakings. These achievements are as follows :

**1. Contribution to National Income:** Due to the continuous increase of public sector undertakings, their contribution to the net income of the country is increasing equally.

**2. Development of backward underdeveloped areas:** The second important contribution of PSUs to the Indian economy is the development of backward and underdeveloped areas of India. At the end of March 1996, most of the appropriation on PSUs was in 10 backward and underdeveloped states of the country. These states are Nagaland, Jammu and Kashmir, Uttar Pradesh, Madhya Pradesh, Assam, Rajasthan, Himachal Pradesh, Orissa, Andhra Pradesh and Bihar.

**3. Increase in employment opportunities:** With the establishment of public sector undertakings, there has been increase in employment opportunities in the country, which has contributed significantly in solving the problem of unemployment. In 1964-65, only 4 lakh persons were employed in public undertakings, but today their number has increased to 21 lakhs.

**4. Development of Grate and Capital Industries -** The very important role of PSUs has been in the development of basic and capital industries, resulting in the development of iron and steel industry, heavy engineering industry, chemical and fertilizer industry, heavy machine industry, transport services etc. has happened. Today, many things are being made in India, which were not produced before, such as security furnishings, aeroplanes, water ships, weapons, consumer goods, watches etc.

**5. Contribution to export growth:** PSUs are also making significant contribution to export growth. Public enterprises' share of exports in 1970-71 was only 12.3 percent, which has increased to about 26 percent in 1995-96. This is an important achievement.

**6. Contribution to the development of minor irrigation ancillary industries:** Establishment of many small and ancillary industries in the country directed and assisted by PSUs. Now the number of units established with such direction and assistance is around 607.

**7. Assistance in rehabilitation of sick mills:** PSUs have contributed significantly in rehabilitation of sick mills. In this connection, the National Cotton Textile Corporation has taken control of 120 mills nowadays, on whose rehabilitation it is spending crores of rupees.

**8. Cooperation in achieving self-reliance:** The major contribution of PSUs is to help in achieving self-sufficiency. India has become self-reliant to an extent in the manufacture of various equipment and plants of the Indian steel industry. Many machinery and engineering goods are no longer imported. Production of chemical fertilizers has increased significantly. Aeroplanes and water ships are now being built in India. The production of steel has also increased significantly in the public sector. Different types of units can now be found in India. All these are the results of expansion of public sector.

### CAPITAL EXPENDITURE DECISIONS IN PUBLIC SECTOR UNDERTAKINGS

The Government of India decided way back in 1961 that financing pattern would have a debt-equity ratio of 1:1. Every new project will have half the investment in equity capital and the other half in debts. A decision about capital expenditure involves a number of organisations.

The following organisations are involved in taking up of new schemes, deciding about expansions, modifications, diversifications, etc. :

- (i) Board of Directors of the Undertaking
- (ii) Administrative Ministry
- (iii) Public Investment Board (PIB)
- (iv) Planning Commission
- (v) Finance Ministry
- (vi) Bureau of Public Enterprises (BPE), and
- (vii) Director General of Technical Development (DGTD).

Every capital expenditure proposal is first discussed at Board of Directors level of concerned enterprise. The Board can decide only upto a certain amount. The proposals requiring more investments are recommended by the board to the concerned Administrative Ministry.

After a proper study at Ministry the proposal is either sent to Public Investment Board or Project Appraisal Division (PAD) depending upon the cost involved. PAD evaluates proposals requiring Rs. 1 crore or more whereas PIB deals with proposals of Rs. 5 crores or more. At this level various aspects of the proposal such be as technical, financial, economic, managerial, profitability etc. are evaluated.

After scrutiny at ministry level the proposal goes to the Investment Planning Committee of the Planning Commission. The Advisor (Industries) also examines the proposal and then it is recommended to be included in 5-year plan.

The Finance Ministry has to raise funds for various schemes. The Civil Expenditures Division and Bureau of Public Enterprises in the Department of Expenditure under the Ministry of Finance are engaged in scrutinising the proposals of public enterprises. Unless the clearance is given by the Department of Expenditure, the Administrative Ministry cannot incur any expenditure.

The Director General of Technical Development offers technical advice to the Administrative Ministries. In case of foreign collaborations, Foreign Exchange Board is approached. The approval of parliament is also required for major investment decisions.

## BUDGETING BY PUBLIC SECTOR UNDERTAKINGS

Proper budgeting system is followed ad by public sector undertakings. They prepare budgets like Revenue Budget, Capital Expenditure Budget, Cash Budget etc. The Revenue Budget is a projected profit and loss account for the current year and the next year. It is based on production estimates, sales forecasting, cost of production budget, capacity availability budget, expenditure estimates etc.

Capital Expenditure Budget is prepared to forecast future capital expenditure decisions. The expansion, diversification plans etc. are followed for the future period. Cash Budget is based on the estimates of generating and utilising cash. Cash budget takes into account the expenses and incomes shown in revenue budget.

Most of the undertakings prepare budgets for their own use. But undertakings like Railways, LIC, ONGC, etc. submit their budget estimates to Parliament every year. The budgets of the concerns are first approved by the Board of Directors and then sent to the Administrative Ministry, Bureau of Public Enterprises and Planning Commission.

There is no budgetary control system followed in public undertakings. A proper budgetary control system ensures the implementing of budgets. Any deviation from the budget is promptly reported to top management. To ensure efficiency, there should be a systematic budgetary control system in public enterprises.

## PRICING BY PUBLIC SECTOR UNDERTAKINGS:

The fixing of price for the products manufactured by public sector enterprises has always remained a problem area. These units are not earning adequate profits and have not created surplus for expansion etc. There has always been a controversy about the fixing of prices. Should these enterprises earn profits like units in private sector? Should their price structure adhere to utility concept?

In public sector enterprises there has been administered pricing i.e. price fixed by the administration and not by the market forces of demand and supply. The price fixation should have some objective and principles. If the prices are not fixed rationally then these can cause either profit or loss. If prices are higher than increased profits will conceal the inefficiency of the unit. On the other hand if prices are low then there may be losses and efficient units will be penalised. Low prices will not allow the units to create surpluses which are must for further financing of expansion and diversification. There are two approaches in price fixation i.e. public utility approach and rate of return approach. Public utility approach emphasises 'no profit no loss' view. Since public sector units are engaged in basic industries and their products are an important input for other industries, so their prices should be kept low.

There is a feeling that public sector units should follow the pattern of private sector in fixing prices. However, there may be some discrimination consideration in favour of some consumers or sections of society. ARC recommended the following guidelines for fixing of prices by public sector enterprises.

- (a) Public enterprises in the industrial and manufacturing areas should aim at earning surplus so that they are able to generate funds for capital development.
- (b) The notional price and income policy of the private sector should be kept in mind while fixing prices.
- (c) In case of public utility services the objective is to create more output rather than a rate of return on investment.
- (d) PEs should ensure-their full capacity utilisation.

## PROFITABILITY AND EFFICIENCY OF PUBLIC SECTOR UNDERTAKINGS

Profitability and efficiency are related to each other. The normal yardstick of efficiency is profitability. If a concern is earning profits then we call it profitable and on the other if there are no profits then it will be called inefficient. This yardstick cannot be applied in case of public enterprises.

Not all scholars and thinkers are unanimous on the question of the profitability of PSUs. Some scholars say that the purpose of establishing these ventures is not to profit, but to build infrastructure and serve the society. On the other hand, some scholars argue that since these ventures are like private enterprises, they should be benefited from the same as private enterprises, but we can take the balanced ideology here which can say that giving benefits to public enterprises, but this benefit may be somewhat less than private enterprises. Profits are the surplus over cost. In private sector the main aim is to maximise profits. The public enterprises in India should also earn profits because they get certain benefits as compared to the units in developed countries. The labour cost, which is an important element of cost, is very low in India because of abundant supply.

The government provides concessional funds to these undertakings which should also reduce their cost. Even in marketing the products of these units are given preference by government departments. There is an urgent need for the generation of sufficient funds not only for their expansion and diversification but also to spare funds for plan expenditure of the government. The net profit to the Central Government PSUs in 2016-07 has been Rs 152647 crores, while it was running at a loss a few years ago.

**Reasons for Low Profitability in PSUs :** Public enterprises in India are developing significantly. This has strengthened the economy, increased exports, diversified production, and in many cases, India has either become self-sufficient or is in a position to make, but in spite of all this, public sector undertakings are criticized as caused by faults or problems. Following are the major reasons for reduced profitability in PSUs :

➤ **Lack of Efficiency:** The biggest criticism of Indian PSUs is the lack of skill in them; there are many reasons which lead to IAS. These undertakings are to be managed by the officials, who neither have knowledge of business ventures nor are given any training before appointing them in this regard. Therefore, they do not find themselves capable of running their venture at a professional level.

➤ **Low Utilization of Capacity:** The second drawback of PSUs is not full utilization of their capacity by these undertakings. Due to this there is lack of furnishing, lack of power, lack of raw material or poor quality, sudden malfunction of furnishings, lack of managerial ability and lack of demand.

➤ **Excess of salaries and allowances of employees:** The second reason for the low in profitability of public sector undertakings is the high salary of employees.

➤ **Long-term maturity period-** Public sector undertakings are those with considerable capital but have long maturity periods, such as steel, engineering, chemicals and fertilizers. Due to this, the profitability of those enterprises is low.

➤ **Excess Stocks-** Public sector undertakings are always excessively stocky due to lack of proper managerial qualifications. Due to excess stocks, a large part of the capital is appropriated, which reduces the profits.



➤ **Excess expenditure on labor welfare and social facilities:** To meet socialist obligation, public sector undertakings spend more than the private sector by doing labor welfare. These enterprises also spend more on social and civic amenities, whereas the private sector spends this item very rarely. Due to all these reasons their profitability is low.

➤ **Establishment of Public Undertakings in Least Developed Areas:** Some Public Undertakings have been set up at places where there is lack of necessary facilities. Due to this, there is more expenditure in transporting raw materials from there and sending prepared materials from within the country, which reduces the profitability of the enterprises.

➤ **Lack of motivation:** There is a lack of motivation to work more in public sector undertakings, due to which the attitude of employees becomes similar to that of government employees, which is never suitable for business ventures. This reduces production, increases costs and reduces profits.

➤ **Attitude of employees:** The most important reason for low profitability of PSUs is the attitude of employees of these enterprises. These employees consider themselves like government employees. Thus they do not try to reduce the loss of the venture. On the contrary, they want all benefits, allowances and facilities like a government employee.

➤ **Delay in Project Completion:** In the schemes of PSUs, it is found that they are not completed in the pre-determined time and their completion takes longer than the scheduled time.

Therefore, to increase profitability it is necessary that

- Enterprises should try to work at full capacity.
- The salary and allowances of the employee should be based on productivity.
- Those enterprises which are of long maturity period should be economically managed.
- Enterprises should try to reduce their stock. There should be a professional cadre of managers. For this, skilled managers of private industry should be attracted and the present managers should be trained in this cadre by giving proper training and the right to other services should be abolished.
- Employees should change their attitude and there should be a system of giving more labor.
- Immediate decisions can contribute significantly in reducing losses. For this, decentralization of authority in PSUs should be done effectively.
- For management of PSUs should be a cadre of professional managers to manage the undertakings those who should be appointed in these ventures only after providing adequate training to run the business ventures. Therefore, it is suggested that there Attempt should also be made to change the attitude of other employees. For this their wages must be combined with the productivity of the undertaking.

PSUs necessary changes should be made in the functioning of public sector undertakings and inspiring schemes should be implemented. For this, schemes giving the share of employees and the management of workers in additional benefits can be implemented. The PSUs should improve their managerial skills to make full use of their potential. Lack of decor should be removed. An attempt to overcome the power shortage can be done by setting up our own power house. The supply of raw materials should be increased and replenished. Enterprises should Excess of employees should be removed immediately and they should be appointed in those undertakings where employees are required.

### **ROLE OF FINANCIAL ADVISOR IN PUBLIC SECTOR UNDERTAKINGS**

The financial advisor has a place of significance in public sector units. The financial advisor was appointed by the Ministry of Finance as its nominee in the unit. His concurrence in all financial matters was necessary. These persons generally belonged to all-India accounting services and were nominated in the same way as the chief executive, the Board of Directors having no say in his appointment and tenure.

The role of financial advisor has been a matter of controversy. He considered himself an outsider. On the recommendation of a study team the power to appoint a financial advisor now rests with the Board of Directors. He works as an advisor to the chief executive. He advises on all financial matters of the enterprise. He heads the Department of Finance and Accounts.

He is normally assigned the following functions:

- Financial concurrence.
- Payment of bills and accounting thereof.
- Sales and commercial activities.
- Cost accounting, cost control and management accounting.
- Budgeting and budgetary control.
- Tax planning.
- Trustee for Provident Fund, Gratuity Fund etc.
- Internal Checking and Internal Audit.

The type of functions performed by the financial advisor is very important. The success or failure of the organisation is linked to the performance of these functions. Proper care should be taken while appointing a financial advisor.

### **PUBLIC ENTERPRISE POLICY IN PUBLIC SECTOR UNDERTAKINGS:**

There is a consensus that the Government should not be operating commercial enterprises. The reasons for this include scarcity of public resources, inefficient and loss making operations of existing public sector enterprises. Accordingly, as part of the liberalisation process, government has started reforms in public sector enterprises.

The main elements of Governments Policy towards Public Sector Undertakings (PSUs) are:

- (a) Bring down Government equity in all non-strategic PSUs to 26 per cent or lower, if necessary;
- (b) Restrictive and revive potentially viable PSUs;
- (c) Close down PSUs which cannot be revived; and
- (d) Fully protect the interest of workers.

The current direction of privatisation policy is summarised in a suo-motu statement laid in both the Houses of Parliament on December 9, 2002, Government has announced its policy that the main objective of disinvestments is to put national resources and assets to optimal use and in particular to unleash the productive potential inherent in our public sector enterprises.

The policy disinvestment specifically aimed at:

- (i) Modernization and upgradation of Public-Sector Enterprises.
- (ii) Creation of new assets.
- (iii) Generation of employment,

- (iv) Retiring of public debt.
- (v) To ensure that disinvestment does not result in alienation of national assets, which through the process of disinvestment, remain where they are. It will also ensure that disinvestment does not result in private monopolies.
- (vi) Setting up a Disinvestment Proceeds Fund.
- (vii) Formulating the guidelines for the disinvestment of natural assets companies.
- (viii) Preparing a paper on the feasibility and modalities of setting up Assets Management Company to hold, manage and dispose the residual holding of the government in the companies in which government equity has been disinvested to a strategic partner.
- (ix) Government is taking the following specific decisions:
  - (a) To disinvest through sale of shares to the public in Bharat Petroleum Corporation Limited (BPC).
  - (b) To disinvest in Hindustan Petroleum Corporation Limited (HPCL) through strategic scale.
  - (c) To allot, in both cases of BPCL and HPCL, a specific percentage of shares to the employees of the two companies at a concessional price.

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