Public Enterprises in India

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1. CONCEPT OF PUBLIC ENTERPRISE (PE)

Public Enterprise as a concept is very vague. There is no nationally or internationally accepted definition of PE. It is each country's prerogative to draw the line between PE and other Government organisations and activities. The line may not be always logical or rational. For example, a large number of our ordnance factories are not considered as PEs, but the Bharat Dynamics Limited at Hyderabad, which supplies defence requirements like other ordnance factories, is treated as a PE because it is registered as a company under the Companies Act. Similarly, port trusts like the Mumbai Port Trust or Chennai Port Trust which are autonomous commercial bodies providing landing facilities to ships, are not often considered PEs. But the Airport Authority of India which provides a similar service for the air transport is always listed along with other PEs.

Broadly speaking, PE means an activity of a business character, owned and managed by the Government - Central, State or Local, providing goods and services for a price.

Here the Government owning and managing a PE may be the Central, State or Local Government. For an activity to become PE, the Government should not only own it but also manage it. The ownership with the Government should be 51 per cent or more.

2. SYNONYMS OF PE

"Public Sector" is often used as a synonym of PE in contrast with private sector. However, the term public sector is used in the wider sense to cover all Governmental activities including PE.

"Public Undertaking" and PE are used synonymously. Some other terms used for PE are "Public Sector Undertakings" (PSU), "Government-controlled enterprises", "State economic enterprises" and "national companies".

3. WHY THE GOVERNMENT IN BUSINESS?

It may be asked as to why the Government should carry out any business? The function of the Government is to administer the country well and to protect it from foreign aggression rather than undertake industrial and commercial activities. Some people even remark that the best Government is that which administers the least. The reasons behind Government in business are discussed below.

3.1 Economic Reasons for Government in Business

At the time of independence we had virtually no industrial infrastructure. The public enterprises which could produce steel, machine tools, heavy electricals, transportation equipment, power, and numerous other inputs necessary for industrial development were therefore considered necessary. The private sector did not have adequate resources for investment in various basic and heavy industries. The risk involved in starting such industries was great. They took many years before producing results and the return on the capital investment was likely to be low. All these factors made basic and heavy industries unattractive for the private sector, and the Government therefore had no option but to step in.

3.2 Taking over of sick Private Sector Units

When private sector units became sick and had to be closed down, the Government in many cases was forced to take them over mainly for two reasons. First, to avoid large unemployment, and second to save

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useful production capacity, which would have been lost to the nation had the unit been closed down permanently.

3.3 Promotion of Interest of Disadvantaged Sections of the Community and Backward Regions

This objective is being fulfilled in a big way by the State Governments and Union Territories, where hundreds of developmental and promotional PEs have been set up. Some of the Central Government PEs in this category are: (i) North Eastern Regional Agricultural Marketing Corporations Ltd., (ii) Rehabilitation Industries Corporation Ltd., (iii) Nagaland Pulp and Paper Company Ltd., (iv) Rural Electrification Corporation (established in 1969 to finance Rural Electrification Projects), (v) Artificial Limb Manufacturing Corporation (established in 1973 to manufacture aids and appliance for orthopaedically and visually handicapped persons). (vi) National Scheduled Castes and Scheduled Tribes Finance and Development Corporation, (set up during 1988-89) and (vii) National Backward Class Finance and Development Corporation, (set up during 1992-93).

3.4 Nationalisation of Strategic Industry in Foreign Hands

The oil sector is the most important example of this. The Government negotiated with oil companies like ESSO, Burmah Shell, Caltex and nationalised them in order to control the strategic oil industry.

3.5 Control of "Commanding Heights" of the Economy

Late Prime Minister Indira Gandhi speaking about the bank nationalisation in July, 1969 had stated that, "control over the commanding heights of the economy is necessary, particularly in a poor country where it is extremely difficult to mobilise adequate resources for development". The nationalisation of the Life and General Insurance companies was also motivated, among others, by this objective.

4. INDUSTRY-GROUPS WISE CLASSIFICATION OF IMPORTANT CENTRAL GOVERNMENT UNITS

The following classification of Government companies and corporations would provide an idea of the range, diversity and variety of PEs. This shows that the central Government's excursion in various areas of activity is widespread and pervasive.

4.1 Production of goods

4.1.1 CAPITAL GOODS

a) Heavy engineering, e. g.,

i) Bharat Heavy Electricals Ltd.

ii) Bharat Bhari Udyog Nigam Ltd.

iii) Heavy Engineering Corporation Ltd.

b) Medium and light engineering, e.g.,

i) H.M.T.Ltd.

ii) Hindusthan Cables Ltd.

iii) Indian Telephone Industries Ltd.

4.1.2 BASIC RAW MATERIALS

a) Steel, e.g.,

i) Steel Authority of India Ltd.

ii) Rastriya Ispat Nigam Ltd.

iii) Mishra Dhatu Nigam Ltd.

b) Coal, e. g.,

i) Coal India Ltd. and its seven subsidiary companies like Bharat Cooking Coal Ltd., Eastern Coalfield Ltd., Western Coalfield Ltd. etc.

ii) Neyveli Lignite Corporation Ltd.

c) Minerals and metal e.g.,

i) Hindusthan Copper Ltd.

ii) Hindusthan Zinc Ltd.

iii) National Mineral Development Corporation Ltd.

d) Petroleum e.g.,

i) Oil & Natural Gas Corporation Ltd.

ii) Indian Oil Corporation Ltd.

iii) Bharat Petroleum Ltd.

e) Chemicals and fertilizers, e.g.,

i) Indian Petro Chemicals Ltd.

ii) Indian Drugs & Pharmaceuticals Ltd.

iii) Rashtriya Chemicals & Fertilizers Ltd.

4.1.3 CONSUMER GOODS

FOR EXAMPLE

i) National Jute Manufacturers Corporation Ltd.

ii) Hindustan Paper Corporation Ltd.

iii) Hindustan Photofilm Manufacturing Co. Ltd.

iv) National Textile Corporation. And its nine subsidiary companies.

4.1.4 ELECTRONICS

FOR EXAMPLE

i) Bharat Electronics Ltd.

ii) Electronics Corporation of India Ltd.

iii) C.M.C. Ltd.

4.2 Trading

For Example

i) State Trading Corporation of India Ltd.

ii) Mineral & Metal Trading Corporation of India Ltd.

iii) Central Cottage Industries Corporation of India Ltd.

4.3 Services

4.3.1 TRANSPORTATION SERVICES

FOR EXAMPLE

i) Air India Ltd.

ii) Indian Airlines Ltd.

iii) Shipping Corporation of India Ltd.

4.3.2 CONTRACT AND CONSTRUCTION SERVICES

FOR EXAMPLE

i) Hindusthan Steel Works Construction Ltd.

ii) Rashtriya Pariyojana Nirman Nigam Ltd.

iii) National Building Construction Corporation Ltd.

4.3.3 TECHNOLOGY AND CONSULTANCY SERVICES

FOR EXAMPLE

i) Metallurgical & Engineering Consultants (India) Ltd.

ii) Engineers India Ltd.

iii) National Industrial Development Corporation Ltd.

4.3.4 TOURIST SERVICES

FOR EXAMPLE

i) Indian Tourism Development Corporation Ltd.

ii) Assam Ashok Hotel Corporation Ltd.

4.4 Term finance - general and specific

For Example

i) Industrial Development Bank of India

ii) Rural Electrification Corporation Ltd.

iii) Power Finance Corporation Ltd.

4.5 Development and support to agriculture

For Example

i) Food Corporation of India

ii) Central Warehousing Corporation

iii) National Seeds Corporation Ltd.

4.6 Generation and distribution of electricity

For Example

i) National Thermal Power Corporation Ltd.

ii) Power Grid Corporation of India Ltd.

iii) Nuclear Power Corporation of India Ltd.

4.7 Production of defence goods and equipment

For Example

i) Hindusthan Aeronautics Ltd.

ii) Bharat Dynamics Ltd.

iii) Mazagon Dock Ltd.

4.8 Insurance and banking

For Example

i) Life Insurance Corporation of India

ii) General Insurance Corporation of India and its 4 subsidiaries.

iii) 27 Public sector banks.

4.9 Others – non profiting/of services nature

Promotion of specially disadvantaged section, e.g.,

i) National SC/ST Finance and Development Corporation

ii) National Backward Class Finance and Development Corporation

iii) Artificial Limbs Manufacturing Corporation of India.

5. PE POLICIES

5.1. Industrial policy resolution of 1948

The industrial policy resolution of 1948, the first of its kind stated - "... for some time to come, the State could contribute more quickly to the increment of national wealth by expanding present activities wherever it is already operating and by concentration on new units of production in other fields, rather than on acquiring and running existing units".

According to this resolution, industries were divided into three broad categories. The first category comprised: (i) Manufacturing of arms and ammunition, (ii) Production and control of atomic energy and (iii) The ownership and management of railway transport. These were to be "the exclusive monopoly of the Central Government".

For the second category, the State Governments including the Central Government and public authorities like Municipal Corporations, were to be "exclusively responsible for the establishment of new undertakings", except when the private cooperation was needed in the national interest. This category covered six industries, namely, (i) Coal (ii) Iron and Steel (iii) Aircraft manufacturing (iv) Ship building (v) Manufacturing of telephone, telegraph and wireless apparatus (excluding radio receiving sets), and (vi) Mineral oils.

The rest of the industries were "normally" to be left to private enterprises subject to the provision that the State will also progressively participate in this field, and will not "hesitate to intervene whenever the progress of an industry under private enterprise is unsatisfactory".

5.2 Industrial policy resolution of 1956

This resolution was made based on the need for a planned and rapid development and declared that "... all industries of basic and strategic importance, or in the nature of public utility services, should be in the public sector". The Government was therefore "to assume direct responsibility for the future development of industries over a wider area".

Regarding steps to improve PE management, the resolution stated that "proper managerial and technical cadre in the public services are being established". It was recognised that "speedy decisions and a willingness to assume responsibility are essential if these enterprises are to succeed. For this, wherever possible, there should be decentralisation of authority and their management should be on business lines. Public enterprises have to be judged by their total results and in their working they should have the largest possible measure of freedom". Unfortunately, these valuable ideas were never taken up seriously and sincerely for implementation.

5.3 Industrial policy statement of 1977

The industrial policy announced by the Janata Party Government on December 23, 1977, envisaged PE as a means of socialising the means of production in strategic area and for providing a countervailing force to the growth of large houses and large-scale enterprises in the private sector. It also envisaged a greater role for PE in several fields, e.g., producing of important and strategic goods of basic nature, acting as a stabilising force for maintaining essential supplies for the consumer; and encouraging a wide range of ancillary industries in the small-scale and cottage industry sectors.

The Government was also expected to operate PEs on profitable and efficient lines in order to ensure adequate returns on investment made in them.

5.4 Industrial policy statement of 1980

The policy statement of the Congress Government made in the Lok Sabha on 23rd July, 1980 fully endorsed the 1965 resolution, which according to it "reflects the value system of our country and has shown conclusively the merit of constructive flexibility". The statement referred to the "gigantic task" of rehabilitating "faith in the public sector" and of evolving "effective operational systems of the management" in PE.

In this statement, the Government emphasised the desirability of allowing private sector undertakings "to develop in consonance with targets and objectives of national plans and policies", but it did not want "the growth of monopolistic tendencies or concentration of economic power and wealth in a few hands".

5.5 Industry policy statement of 1991

The Narasimha Rao Government, which came to power in 1991, gave a totally new direction to PE policy. The policy was of managing the transition from centrally planned economy to market led economy. The policy's aim had been to "role back" the public sector investment from those sectors of the economy where the private sector could move in.

As stated above, there was deviation in basic idea of the policy statement of 1991. First the reasons to change the policy are described in sub section 5.5.1 and then the major changes are described in sub section 5.5.2.

5.5.1 REASONS TO CHANGE THE POLICY :

The Government felt that "after the initial exuberance of the public sector entering new areas of industrial & technical competence, a number of problems have begun to manifest themselves". Six of those listed in the statement were: (i) insufficient growth in productivity, (ii) poor product management, (iii) over managing (which means employing more persons than necessary for performing a job), (iv) lack of continuous technological upgradation, (v) inadequate attention to R & D and human resource development, and (vi) a very low rate of return on the capital employed. According to the policy statement, all these resulted in many PEs becoming "a burden rather than asset to the Government".

5.5.2 CHANGES ENVISAGED BY THE POLICY STATEMENT

1) The monopoly of any sector or any individual enterprise in the field of manufacture, except on strategic consideration, will be abolished. All manufacturing activities will be open to competition.

2) PEs essential for the operation of the industrial economy will be made more growth oriented and dynamic.

3) PEs faltering at present but are potentially viable will be restructured and given a new lease of life.

4) Priority areas for growth will be PEs in: (i) essential infrastructure goods and services, (ii) exploration of oil and mineral resources, (iii) areas crucial in the long term development of the economy where private sector investment is inadequate, and (iv) defence equipment.

5) The public sector will not be barred from entering areas not specifically reserved for it.

6) The Government ownership in areas (i) where the private sector has developed sufficient expertise and resources, (ii) non-strategic, (iii) based on low technology, (iv) inefficient and unproductive and (v) having low or nil social consideration or public purpose, will be reviewed with greater realism.

7) PEs (i) in the reserved areas of operation (ii) in high priority areas, and (iii) which are generating good or reasonable profits, would be strengthened. This will be done by providing a much greater degree of management autonomy through the system of memoranda of understanding (MOU), and through competition by inviting private sector participation.

8) In selected PEs, a part of Government equity holdings will be disinvested (i) to provide further market discipline to their performance, (ii) to encourage wider public participation, and (iii) to raise resource. The disinvested equity would be offered to mutual funds, financial institutions, general public and workers.

9) Chronically sick PEs which are unlikely to be turned around will be referred to the Board for Industrial and Financial Reconstruction (BIFR).

10) Boards of PEs would be made more professional and given greater powers.

11) There will be a greater thrust on performance improvement through the MOU system through which management would be granted greater autonomy and will be held accountable.

12) Government will ensure that PEs are run on business lines as envisaged in the Industrial Policy Resolution of 1956 and would continue to innovate and lead in strategic areas of national importance.

6. RELATIONSHIP OF THE GOVERNMENT WITH PES OF INDIA

i) Formal: The parameters of formal relationship and the way it would operate are laid down in the Articles of Association of a Government Company, and in the Acts of Parliament for the statutory corporations.

ii) Informal: This is exercised through personal communication, through Government directors on the Board, and through written communications suggesting a course of action for consideration by the enterprise. Obviously, in case of informal influence, the responsibility for the decision and for its consequences is of the enterprise and not of the Government.

An important aspect of informal relationship is that the Government exercises much authority over its enterprises without accepting responsibility of its consequences. For example, the Government may suggest to the enterprise to award a contract to a party, to purchase from a particular source, locate a unit at a particular location, or not to increase the price of its products. Now if the enterprise follows the advice and suffers a loss, the Government official or the Minister could deny his role, or say that he never ordered the course but had only suggested it for consideration by the enterprise.

But the wishes of the senior officials of the Government or of the concerned minister are in practice no less than orders. It is so because PEs often depend heavily on the Government for all their funds and also for day-to-day approvals, clearances and other help. Three dimensions of Government-PE relationship are mentioned below.

6.1 Ways in which Government control is exercised

The Government exercises control over its enterprises in various ways. Some of the important methods of Government control are discussed below:

6.1.1 POWER TO APPOINT THE BOARD OF DIRECTORS :

The Government as the sole or majority owner of PEs appoints their Board of Directors. However, the exercise of this power has often not been in the best interest of PEs. The main problems are:

i) Excessive delay in filling Board level vacancies;

ii) Presence of too many officials on the Board who tend to bureaucratise decision-making; and

iii) Inadequate part-time professional experts on the Board.

6.1.2 PRIOR APPROVAL ON IMPORTANT MATTERS:

The Government as owner has reserved many matters to itself, on which discussions can be held only after its approval. These matters have been listed in the Articles of Association of Government Companies, and in the Acts or the rules made under them in respect of statutory corporations. Some of the important matters for which prior approval of the Government is generally required are given below :

i) Capital expenditure beyond the limits laid down from time to time.

ii) Formation of a subsidiary company by the enterprise.

iii) Making of rules governing the conditions of service, the employees' provident fund and to create reserve and special funds.

iv) Giving employees a commission on the profits of the business of the enterprise.

v) Agreements involving foreign collaboration.

vi) Borrowings, investment and distribution of profits.

6.2 Government's Power to Issue Directives

The Government has a right to issue directives to PEs in regard to their affairs, and the enterprises are bound to comply with them. The directives could be general or specific. Three important examples of general directives are: i) reservation of posts for Scheduled Casts and Tribes and ii) The Indian Oil Corporation was once asked to conduct departmental enquiries against officers of the Barauni Refinery and, iii) the LIC was asked to set up a divisional office at Silchar.

6.3 Circulars and Office orders issued by the Government

Government-PE relationship is also regulated through circulars issued by the Department of Public enterprises and by some ministers and departments from time to time. These circulars have no legal sanction. But as they are a formal expression of the wish of the owner, they are given due weight by PEs. Moreover, Government directors on the Board often insist on compliance with these circulars.

7. REASONS FOR EXCESSIVE GOVERNMENT CONTROL

The main reasons why the Government has not been able to maintain the required distance from its enterprise are: Firstly, PEs are often centres of large power and authority. Secondly, the socio political contents of their operation are high in many cases. Thirdly, PEs are important and useful instruments of public policy. The Government therefore finds it difficult to keep away from PEs. PEs however greatly suffer in the process and get damned when they fail to show result in competition with private enterprise.

8. NEED TO REVIEW THE RELATIONSHIP

The Economic Administration Reforms Commission (Chairman: L.K.Jha) was of the view that "there should be a radical re-examination of the nature of the Government's relationship with PEs. The concept of 'administrative control' should be thoroughly reconsidered. PEs should be distanced from the Ministries and the latter confined to periodical reviews of overall performance with reference to overall objectives. The constant stream of instructions, questions, request for information, summons to meetings, telephone calls etc., should be drastically curtailed. The detailed supervision of operational matters should be stopped. Determined efforts should be made to get away from the tendency on the part of administrative ministries to treat public enterprises as subordinate offices".

The ideal way in which the Government should interact with its enterprises is perhaps difficult to achieve. But it should be attempted with all sincerity and seriousness. The following principles may be implemented and followed.

1) The Government should seek to ensure the efficiency of PEs by exercising a broad oversight over them, but should not become involved in their management.

2) The PEs should be left as free as possible to carry out the policies required of them as efficiently as possible.

3) There should be clear demarcation of responsibilities between Government departments and PEs. An important part of this principle is that if the enterprise is not able to deliver the goods, the Government would not do the enterprise's job itself.

4) The Government and PEs should be publicly accountable. It means that responsibility for actions, success and failures should be publicly identifiable.

5) Proper and fruitful exercise of Government control depends on the attitudes and ability of both the minister and his/her secretariat and the PE board and its officials. The principle speaks for itself because "If the men are wrong, nothing will be right."

Though the above principles are sound and meaningful, they are not generally observed in practice. The Government, irrespective of political background, continues to exercise a lot of unnecessary, unproductive and undesirable control over its enterprises.

Coming together is a beginning;
Keeping together is progress;
Working together is success.