Performance of Public Sector Enterprises in India

Following are some of the performances of public sector enterprises in India:

1. Employment Generation:

In the various Five Year Plans although we have invested around 60 per cent of our total planned resources on the development of public sector but this sector generated employment to the extent of only 181.97 lakh till 2004. But the total employee strength of Central Public Sector Enterprises (CPSEs) has been coming down from 20 lakh in 2001-02 to 16.14 lakh in 2006-07 and then to 15.7 lakh in 2007-08.

About 5.94 lakh employees had opted for Voluntary Retirement Scheme (VRS) till March, 2008. Thus, total number of, persons employed in the public sector enterprises is about 6.6 per cent of the total number of workforce in the country. In India, 90 per cent of the total numbers of workforce are employed in un-organised sector and the rest 10 per cent are employed in organised sector.

Out of this total employment generated in the organised sector, 7.13 per cent of these workers are employed in the public sector in 1991. Thus in respect of employment generation the share of public sector enterprises remained very poor as these enterprises were mostly capital-intensive in nature.

2. Contribution to NDP:

In-spite of huge investment the public sector enterprises contributed a little portion of the Net Domestic Product of the country. Although average rate of growth of investment in the

public enterprises remained very high (i.e., 16 per cent to 21 per cent) but the share of public sector enterprises in N.D.P. has been increasing at a very slow rate i.e., from 3 per cent in 1950-51 to 7.5 per cent in 1970-71 and then rose to 11.12 per cent in 2005-06.

3. Contribution to Gross Domestic Capital Formation:

The share of public sector enterprises in gross domestic capital formation has also increased at a very slow rate, i.e., from 3.5 per cent during the First Plan to only 10.7 per cent during Seventh Plan period.

4. Foreign Exchange Earnings:

The foreign exchange earning of the public sector enterprises has gradually increased from Rs. 35 crore in 1965-66 to Rs. 170 crore in 1969-70 and then to Rs. 10,345 crore in 1992-93. But in physical terms the rate of growth of these earnings would be much less.

5. Contribution to Government Exchequer:

The contribution of the public sector enterprises towards Government exchequer through dividend, corporate tax, excise duties, custom duties and other has increased from Rs. 7,985 crore during the Fourth Plan to Rs. 85,445 crore during the Tenth Plan. But a good portion of this contribution has been done at the cost of increased tax burden on the people of the country.

6. Profitability:

In respect of profitability, the public sector enterprises are showing a dismal picture. Although some public enterprises are earning a good amount of profit but a good number of other public enterprises are incurring a huge loss leading to a fall in the amount

of overall net profit earned by the public sector enterprises in general.

In 1992-93, the top ten profit leaders of the public sector enterprises with their amount of profit were as follows: IOC (1085), NTPC (1007), ONGC (530), MTNL (421), SAIL (367), BPCL (225), NSML (237), HPCL (206), MMTC (199), and BHEL (187). On the other hand, the top ten loss leaders in our public sector enterprises with their amount of losses (shown in brackets in crores of Rupees) were as follows: RINL (987), HFC (330), FCI (225), DTC (204), IA (199), HEC (193), IDPL (112), HSL (104), HPC (71) and HSCL (69.4).

If we look back at the profitability of these public enterprises then in the initial period the picture was really gloomy. During the period 1966-67 to 1970-71, these public enterprises have earned a net loss to the tune of Rs. 800 crore. The Table 4.7(a) will show the rate of return of these public sector enterprises since 1969-70.

The performance of the operational PSEs could be assessed by considering their achievements in respect of the following:

1. Gross Margin:
Gross margin of PSEs which was only Rs. 2401 crores in 1980-81 went are Rs. 26,137 crores in 1993-94.

2. Percentage of Gross Margin to Capital Employed:
The percentage of gross margin to capital employed which stood at 13.19 per cent in 1980-81 went up to 17.3 per cent in 1993-94.

3. Depreciation and Deferred Revenue Expenditure:
The depreciation and deferred revenue expenditure went up from Rs. 903 crores in 1980-81 to over Rs. 9,000 crores in 1993-94.

4. Gross Profit:
The gross profit of the PSEs went up from Rs. 4,418 crores in 1980-81 to Rs. 19,000 crores in 1993-94.

5. Percentage of Gross Profit to Capital Employed:
PSEs have not been able to achieve high percentage of gross profit to capital employed. In 1980-81, this percentage stood at 7.79 and went up marginally to 11.82 per cent in 1993-94.

6. Net Profit:
In 1993-94, net profit of 240 PSEs are estimated at Rs. 3,396 crores as against net profit of Rs. 3,396 crores in the preceding year.

7. Non-Monetary Performance:
Public sector enterprises are not guided purely by monetary considerations. Their objective is to promote public welfare at large.

It is, therefore, suggested that the performance of the public enterprises should be assessed in terms of welfare criteria which involves the following considerations:

(i) Whether public enterprises have promoted welfare by providing essential goods and services at reasonable prices;

(ii) Whether public enterprises have generated additional employment opportunities;

(iii) Whether public enterprises have helped in the development of small-scale and ancillary industries;

(iv) Whether public enterprises have promoted balanced regional development; and

(v) Whether public enterprises have created the necessary infrastructure for the speedy growth of industries.

Non-monetary performance of the public enterprises has been very encouraging. The enterprises have created a base for industrialisation, regional development and promotion of public welfare. However, the rate of growth and the performance could have been better.

Reasons for the Poor Performance of Public Enterprises:

The following reasons account for the poor performance of the public enterprises:

(1) Underutilisation of Capacity:
A large number of public enterprises function at a capacity far below the rated capacity. Because of the underutilization of the plant capacity, there is wastage of material and manpower resources which leads to escalation of the cost of production. According to the 1994-95 Public Enterprises Survey conducted by the Bureau of Public Enterprises, capacity utilisation in 20 per cent units was between 50 and 75 per cent, and 20 per cent units showing capacity utilisation less than 50 per cent.

(2) Over-Capitalisation:
Input-output ratio obtaining in many public enterprises is unfavorable. Factors like bad location of project, inadequate planning, delays in the completion of project, surplus plant capacity, expensive turnkey projects, etc., lead to over-capitalisation of the public enterprises.

(3) Administrative Inefficiency:
Public enterprises lack the strong cadre of professional managers. In most of the public enterprises the common practice is to use bureaucrats as chairman, managing directors and managers, no matter how much inefficient or incompetent they may be to manage these enterprises.

(4) Price Policy:
The pricing policy of the public enterprises is not guided solely by profit motive but social consideration as well. Public enterprises have to keep the prices of their products low even when costs and prices have been rising. Now, it is being gradually realised that profit should be recognised as an index of efficiency.

(5) Takeover of Sick Units:
Public sector has taken over the management and control of several units declared sick in the private sector. Most of the loss making units in the public sector are the sick enterprises taken over by the government from the private sector.

(6) Less Remunerative Enterprises:
Most of the public sector enterprises are set up in those areas of production which have a very low rate of return on investment. These enterprises employ large capital and the gestation period is also too large. These enterprises are generally established in relatively backward areas, and this adversely affects their profitability.

(7) Higher Social Cost:
Public enterprises have to incur huge expenditure on social overheads like construction of labour colonies, development of

townships, construction of roads, bridges, etc. Excessive expenditure on social overheads causes increase in total cost.

(8) Ministerial Interference:
The Parliamentary Committees and the Government do not allow the public enterprises to function independently. Purely political considerations have sometimes led to overstaffing, mismanagement and other inefficiencies, political interference also leads to unbalanced regional development of industries.

Suggestions for Improving the Performance of Public Sector Enterprises:

The following measures can be suggested for improving the performance of public sector undertakings in India:

(1) Managing of these undertakings should be entrusted to the trained and skillful personnel.

(2) The price policy of the public sector undertakings should aim at improving the profitability of the public undertakings. These profits can later on be used for the establishment of new enterprises, expansion and modernisation of the existing units.

(3) All-out efforts should be made to make fuller utilisation of the capacity in different enterprises. Possibilities of export promotion should also be explored.

(4) Public sector units should be allowed to raise larger deposits from the public. In fact, they have been allowed to raise public deposits up to 35 per cent of their share capital.

(5) Establishment of public enterprises be based purely on economic and social welfare consideration rather than political pressures.

(6) Disinvestment of a part of Government holdings in the share capital of selected public sector enterprises in order to provide

market discipline and to improve the performance of the public enterprises.

(7) Sick public sector units should be merged together to make them economically viable units. There should also be restructuring of loss-making enterprises.

(8) Before the installation of these enterprises, pre-investment surveys should be conducted thoroughly. Delays in the installation of units should be avoided.

(9) The Sick Industrial Companies Act (SICA) has been amended to bring PSUs under its purview.

Strategy in the Eighth Plan:
In the framework of the New Economic policy, public sector enterprises have to play an important role as autonomous, competitive and efficient units to provide essential infrastructure, goods and services, development of natural resources and areas of strategic concern.

In order to improve the performance of the PSEs, the following measures have been suggested:
(i) The public sector should make investment in those areas where investment is of an infrastructural nature which is necessary for the facilitating growth and development;

(ii) The public sector may withdraw from the areas where no public purpose is served by its presence;

(iii) The products of the PSEs, unless these satisfy the needs of the poorest in the society, should be priced as per cost and costing with full efficiency in operations;

(iv) Policy for sick public enterprises to be same as that for the private sector;

(v) Improving performance through the performance contract or Memorandum of Understanding (MoU) system by which

management are to be granted greater autonomy and held accountable for results.

(vi) Disinvestment of shares in PSEs to raise resources and encourage wider participation of general public and workers in the ownership of the PSEs.