CHAPTER-8.

SUMMARY OF FINDINGS AND RECOMMENDATIONS.

The great public sector in India has travelled a long arduous journey during last Thirty five years. Public Sector is the engine of growth, an indispensible instrument for achieving socio-economic objectives of raising standard of living and welfare of masses as embodied in industrial policy resolutions.

Total investment in Public Sector by end of 1-4-85 is Rs. 42,811 Crores, but rate of return is very low and out of 207 enterprises 91 showed pre-tax losses (Pg.8) totalling to about Rs. 1,09,392 Lacs. In past the losses of public enterprises, had often been camouflaged, under social obligations and multiple objectives of the public sector. But it has now been accepted at all forums that performance measurement criterion for the public sector is also its financial profitability and capacity to generate surplus. The greater the extent of generation of surpluses in the PEs, the greater the state control over savings and investments to meet the avowed objective of socialistic pattern of society.

The study has been undertaken to enquire into and empirically scan the various factors which can affect the financial profitability of the public sector. For the purpose, Fertiliser sector is selected and four companies formed after restructuring of erstwhile Fertiliser Corporation are identified for detailed study. The period for study covers five years from 1980 to 1985. This Chapter presents a summary of important factors, analysed in previous chapters, which affects profitability and guidelines by way of further action.

8.1 SUMMARY OF FINDINGS AND GENERAL CONCLUSION.

8.1.1 Profitability analysis of identified enterprises reveals that HFC and FCI are chronic losers for all the five years, while NFL showed loss for 1980-81 only and RCF showed profit for all the years (Chapter-IV Pg. 41). The rate of losses of FCI showed a decreasing trend, but the rate of return for all the enterprises is low, against the norm of 12% specified in plan documents. RCF has faired better than other enterprises, may be due to other industrial products manufactured and marketed by RCF.

8.1.2 The various factors which can affect profitability are classified as endogenous and exogenous, Primary, Secondary or Tertiary depending upon its direct or indirect effect (Pg. 47-48). The factors have then been examined in details in Chapter-5, 6 and 7. The study established that the major factors which adversely affect profitability of the identified enterprises are:

(a) Over Capitalisation:

Mode of project implementation, and source of financing imports affect time and cost overruns and increases cost of the project.

HFC's three units at Durgapur, Barauni and Halida, are victims of tied-up source of financing, cost and time overruns. Similarly FCI's two plants at Ramagundam and Talcher - coal based pioneering venture (Pg.59) are also affected by tied up credit. Tied up credit limites the choice of equipment from proven sources and besides increase in cost and time schedule resulting in over capitalisation. Consequent to this equipment failure in these plants is also maximum which has increased cost of production and reduced capacity utilisation and profitability.

(b) Out-dated Technology & Choice of Equipment:

In some of the plants improper system integration and equipment design deficiency have been the major causes of low capacity utilisation besides other constraints. Design deficiency and bad performance of equipments is pronounced in plants such as FCI Ramagundam, Talcher, HFC, Durgapur, Barauni and Haldia. The reason for the same seems to be the tied-up credits and multiple sources of foreign exchange which limit selection of technology and choice of proven equipment.

HFC's Durgapur, Barauni and Haldia units have been financed under Italian tied credit and unproven Ammonia Technology was adopted through Technimont. This has resulted in recurring operating losses.

(c) Operational Inefficiency:

It is recognised that however a plant is designed, considerable efforts are required to attain optimum production.

Poor operational efficiency and poor preventive maintenance, has resulted in frequent breakdowns, higher consumption of feed stocks and low capacity utilisation and consequent higher cost of production, (Table-21 Pg. 70) & (Table-26 Pg.80). This has reduced profitability or has increased losses for all enterprises.

(d) Low Capacity Utilisation:

Low capacity utilisation is very spectacular in both FCI and HFC which are chronic losers and high in case of JFL and MFL which had shown profits. The average capacity utilisation for profitable operation should be about eighty percent (Table-29 Pg. 85) and (Table-30 Pg. 87) which is FICC norm as well.

This single factor is mainly responsible for low profitability or losses. Capacity utilisation in turn is conditioned by many endogenous and exogenous factors (Pg. 89).

(e) High Inventory and Poor Inventory Management:

Total inventory in all enterprises is very high, which has blocked working capital and increased inventory carrying costs (Page-95). Inventory turn over ratio of all the enterprises is below the norms of 6-8 being specified for protiable operations. Poor inventory management and control has reduced profitability of NFL and RCF and increased losses of FCI and HFC. Reduction of inventory level even by five percent can increase profit enhancing potential by Crores of rupees (Pg. 99).

(f) Excessive Employment and Poor Employment Mix:

In all the plants, there is excessive employments. But in FCI and HFC there is excess of excess. In addition employment mix of engineers and Diploma-holders/B.Sc. is not proper (Pg.109) which has affected the quality of operation and technical management efficiency.

(g) Unions:

The effect of 'Union' on the performance and profitability is the result of:

(a) Wrong and unfair personnel management policies,
(b) Chief Executive's intention to 'buy peace',
(c) Patronage of unions by politicians.

All this adds up to 'Loss of man-hours' in some form or other, directly or indirectly affecting efficiency of the management (Pg.167)

Union isstrength and can be channelised for 'Participative Management' (Pg. 168).

(h) Inefficient Role of Government as Owner:

Location, technology, source of financing and mode of execution are mainly decided by the Government. All these exogenous factors heavily affect the implementation of project, time and cost overruns and subsequent operating losses of the plants (Pg.54).

Lack of clarity on National Objectives and Corporate objectives have made government control diffused and given an opportunity to the Chief Executive to explain lapses and losses.

Government has failed to issue pragmatic and uniform guidelines and steer the identified enterprises properly and timely. Committees are formed from time to time but action on recommendations are delayed.

Excessive control of bureaucrates and Chief Executives anxiety to keep rapport with the Secretary and others has, to some extent, resulted in interference and inefficiency in the working of the enterprises.

Government as 'Owner' even little cares to place Chief Executive in time, which significantly affects continuity and efficiency of the management.

(i) Management Inefficiency:

The inefficiency and inadequacy of the management as reflected in the following areas in varying degree, which are interdependent (Chapter-6 and 7).

(i) Organisation and management structure.
(ii) Coordination and communication.
(iii) Control and Review techniques.
(iv) Management Development and grooming of sub-ordinates, employment mix.
(v) Pragmetic and uniform Personnel Management practices.
(vi) Promotion policy, Excess employment & employment mix.

(vii) Development of 'work culture', dedication and involvement.

(viii) Industrial relations.

(ix) Materials planning.

(x) Inventory management.

(xi) Financial control and working capital management.

(xii) Accounting practices relating to purchase, sales, inventory and cost control.

(xiii) Various administrative parameters such as proper delineation of duties and responsibilities, span of control at various levels, supervision and communication practices and delegation of authority.

(xiv) Optimum utilisation of resources.

(xv) Fair practices in yielding authority.

(xvi) Lack of discipline.

(xvii) Role as 'Trustees of Public'.

(xviii) Motivation.

Out of all the factors which has affected performance and profitability of identified enterprises, management is a major one. It has been further brought out in Chapter-5 and 6 that 'Man' is behind each activity and is an important factor. All problems of management finally manifest themselves into the problems of 'human management'. Right man with right training, right culture, right dedication, at right job under proper systems and fair practices, will automatically maximise the efficiency of the management, productivity of the employee, optimisation of utilisation of resources and the profits. Otherwise all efforts get oriented towards and consumed in adjustments of mal-operations, mal-practices and imbalances which reduces productivity and profitability.

Other factors like tenure of Chief Executive, location, government interference, politicians interference, control of Parliament, accountability, even union and audit by CAG, have marginal effect and gets into prominence only when managerial efficiency is at low level, fair practices are not followed and enterprises continuously incur losses.

This summary is further summed up by concluding that major quantifiable factors which significantly affect profitability of the identified enterprises are:

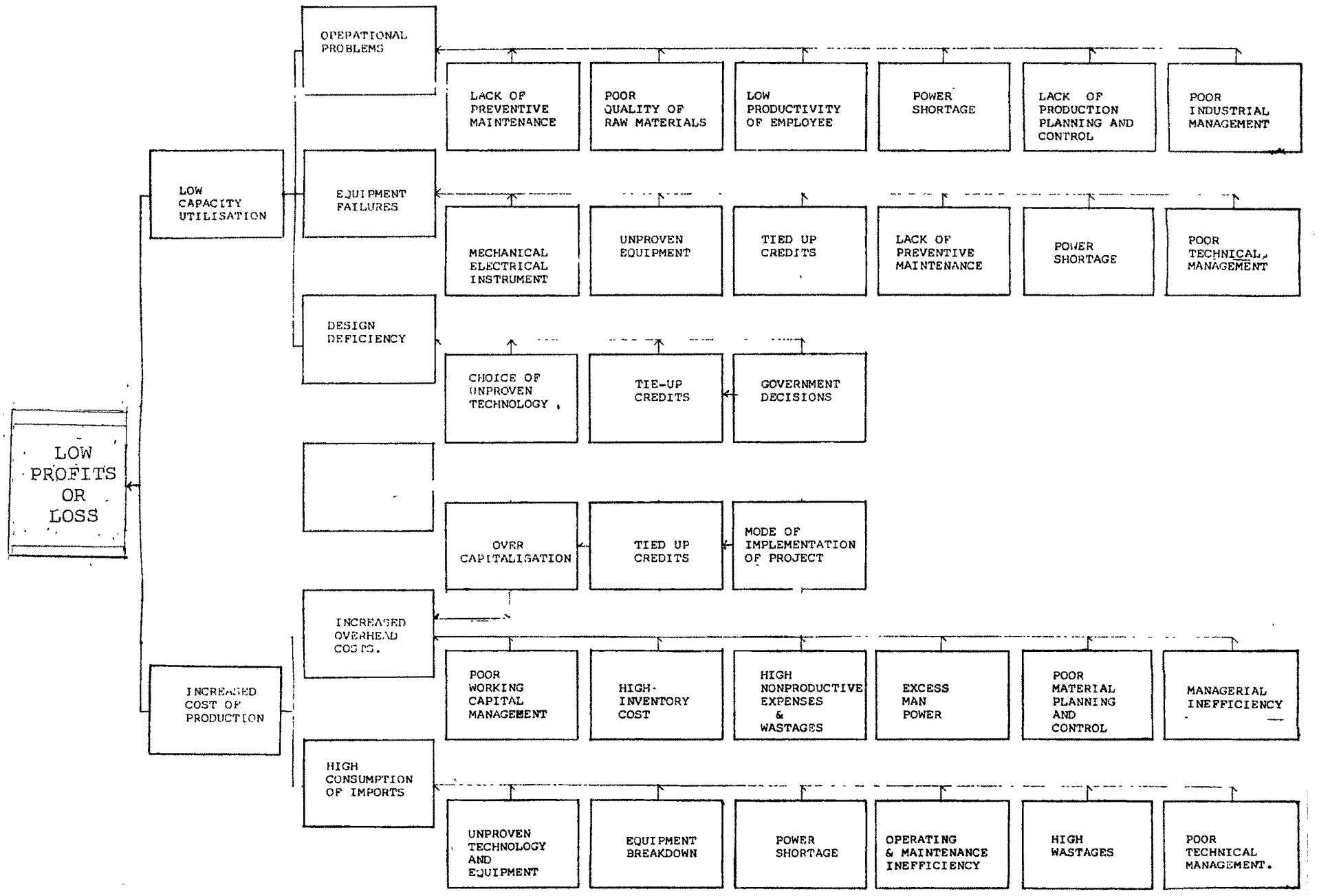
i) Low capacity utilisation.

ii) High consumption of inputs.

iii) High inventory costs.

(iv) Excess man power.

These factors are further affected in series and parallel by the host of other factors which are exhibited in the flow chart at Page-191. The other major factor which affects the above factors and pervade in all other areas of industrial activity is "Managerial inefficiency, systems and control."


LOW PROFITS OR LOSS
LOW CAPACITY UTILISATION
INCREASED COST OF PRODUCTION
OPERATIONAL PROBLEMS
EQUIPMENT FAILURES
DESIGN DEFICIENCY
INCREASED OVERHEAD COSTS.
HIGH CONSUMPTION OF IMPORTS
LACK OF PREVENTIVE MAINTENANCE
POOR QUALITY OF RAW MATERIALS
LOW PRODUCTIVITY OF EMPLOYEE
POWER SHORTAGE
LACK OF PRODUCTION PLANNING AND CONTROL
POOR INDUSTRIAL MANAGEMENT
MECHANICAL ELECTRICAL INSTRUMENT
UNPROVEN EQUIPMENT
TIED UP CREDITS
LACK OF PREVENTIVE MAINTENANCE
POWER SHORTAGE
POOR TECHNICAL MANAGEMENT
CHOICE OF UNPROVEN TECHNOLOGY
TIE-UP CREDITS
GOVERNMENT DECISIONS
OVER CAPITALISATION
TIED UP CREDITS
MODE OF IMPLEMENTATION OF PROJECT
POOR WORKING CAPITAL MANAGEMENT
HIGH INVENTORY COST
HIGH NONPRODUCTIVE EXPENSES & WASTAGES
EXCESS MAN POWER
POOR MATERIAL PLANNING AND CONTROL
MANAGERIAL INEFFICIENCY
UNPROVEN TECHNOLOGY AND EQUIPMENT
EQUIPMENT BREAKDOWN
POWER SHORTAGE
OPERATING & MAINTENANCE INEFFICIENCY
HIGH WASTAGES
POOR TECHNICAL MANAGEMENT.

8.2 RECOMMENDATIONS.

8.2.1 TASK FORCE FOR TECHNICAL IMPROVEMENTS AND MAXIMISING PRODUCTIVITY.

Prescriptions for improving plant performance and productivity have been given from time to time in various Seminars, Conferences and Conventions and by Committees appointed by the Government. The recommendations to improve productivity and capacity utilization are listed below:

(i) Energy audit of the plants to identify wastages and poor performance of equipment and subsequent remedial measures.

(ii) End to End survey of front-end or tail-end or any specific area to identify weak areas, defective design and equipment.

(iii) Revamping and retrofit techniques for old vintage plants:

(iv) Modifications of defective design and defective equipment.

(v) Replacement of defective equipment.

(vi) Addition of equipment to meet shortfalls.

(vii) Improvement in design.

(viii) Debottle necking and energy conservation measures.

(ix) Innovations.

(x) Provision of stand-by equipment for critical service.

(xi) Chalking out maintenance schedules.

(xii) Annual shutdown and maintenance.

(xiii) Planned overhaul of critical equipment.

(xiv) Identification of weak areas and wastages and elimination thereof.

There is thus a widespread consciousness for increasing efficiency of the plants and for adopting cost reduction techniques. To improve the operational efficiency, normally, recourse to above techniques of revamping and retrofitting, modification, conservation, have to be adopted. But unfortunately, the decision, 'as to what to do' is arrived at after long procedural deliberations and without involving the local plant talent. Such studies and surveys are often conducted by outside agencies. The result is Managers and Engineers do not put their soul in the plans that are implemented. Obviously the achievements and subsequent results do not match money, time and efforts spent.

Therefore it is recommended that a "TASK FORCE" for Technical Performance Audit and subsequent plan implementation for each plant must be created with well defined objectives and delegation of powers and headed by senior manager to continuously undertake:

(i) Energy Audit,
(ii) Monitoring energy conservation,
(iii) Material conservation practices,
(iv) Corrossion monitoring and prevention,
(v) Study of equipment, efficiency and failures,
(vi) Study to identify weak areas and wastages, And suggest measures to improve performance, productivity and capacity utilisation at optimum costs,

and also accept challenge for implementation of suggestions and show improvement. The Task-force can, however, co-opt if required, outside experts in the field, after preliminary study, for detailed study.

8.2.2 COST CONTROL.

Capacity utilisation is important, but, at what cost, is more important! If cost of production is high, and even variable costs are not recovered, with each extra

-tonne of production, financial losses may increase. Thus, every effort to control costs is a must. Recommendations for cost reduction, in the operating plant are summarised below:

(a) Upgrading operational efficiency,
(b) Eliminating of nonproductive expenditure.
(c) Optimum utilisation of men, machines and money.
(d) Elimination of wastages.
(e) Utilisation of wastages.
(f) Utilisation of byeproducts.
(g) Sound inventory management - inventory optimisation.
(h) By retrofitting of existing plants to improve energy efficiency and ensure plant reliability.
(i) Identification of definite areas and in depth analysis of improving cost of operation.

Energy Audit, Material planning, inventory management and financial control are important tools which should be thoroughly used and system of periodic performance reporting established. Report should be thoroughly scanned and discussed with team of engineers and managers to control operations and expenditure. The 'team work' should be the 'watch word'.

8.2.3 SENSE OF BELONGING AND DEDICATION & PERSONNEL MANAGEMENT.

Neither task-force concept nor cost control techniques can work effectively, if individuals do not have sense of belonging and dedication to duty. This is an abstract condition, but vital to revitalise the identified enterprises and public sector as a whole to achieve optimum results. Otherwise also results will be there (like achievement of progress during British Regime - may be a small segment in a whole) as society is a process not static.

Therefore, dedication and involvement of individual have to be developed by fair and objective management policies, motivating practices and group incentive schemes and productivity linked bonus. Management should offer challenges and opportunities for the development of each employee, supervisor and manager to his fullest ability, thereby making the job, 'a way of life' for him. Personnel Management should not be 'Personal', and avoid excess employment.

8.2.4 CHIEF EXECUTIVE.

Various committees have recommended a tenure of three to five years for Chief Executive. Why there should be a tenure for Chief Executive, when there is no tenure for Secretaries, or General Managers or for any other post?

Chief Executive should continue till the date of his superannuation and after that he should not be given extension, however good he may be. One year before the retirement of the Chief Executive, second in line manager should be earmarked and trained to take over from him and to maintain continuity of management. Further, during this oneyear Chief Executive should not have any administrative powers, as it is often seen during this last year many 'wrongs' are done by the Chief Executives, which errode the administrative discipline.

It is true that all Chief Executives may not have same capabilities to coordinate and control activities and problems. Therefore Chief Executives who have shown good performance of their undertakings should be recognised in public and deputed to the public enterprises which are not performing well. This will also ensure uniformity of practices.

A Caution for Chief Executives.

Let him not develop the chosen few, for whatever can

be gained by developing chosen few will be offset by the stunting, the mal-information and the resentment of those who are passed over. The men who need managerial development the most are really those who are considered 'not good enough' to be promoted but not poor enough to be fired! Therefore, the basic principle of management development is the development of entire group.

8.2.5 MATERIALS MANAGEMENT.

Materials constitute about 40-45% of the cost of production. Any savings in material costs by material planning, efficient and timely purchase keeping five R's in view - Right material at Right price, in Right quantity, from Right vendor and at Right time would reduce cost of production and increase profitability.

Efficient economic purchases coupled with sound inventory management would solve many management and cost reduction problems. There should be a continuous effort to remove and dispose dead and unserviceable inventory items and proper material control.

To achieve this objective it is recommended that Government should consider a post at Director's level for materials management (ONGC has Member Materials) to instil importance of the function and to achieve results.

8.2.6 PROJECT IMPLEMENTATION AND CHOICE OF TECHNOLOGY AND SOURCE OF FINANCING IMPORTS.

The manner in which project is conceived and implemented has lasting effect on operation problems. It is, therefore, recommended that Government should consider:

(a) Quick decision on investment proposals.
(b) Selection of proven technology.
(c) Procedures oriented towards timely completion of project.

(d) Defined mode of execution.

(e) One or two sources of financing imports (non tied-up credits) to ensure choice of proven equipment.

(f) Bulk licence for importing equipment which are duly cleared by Directorate General of Technical Development.

(g) Proper coordination, monitoring and control.

8.2.7 SUPPORTIVE ROLE OF THE GOVERNMENT.

Government should act as owner. Policy makers in Government and Performing Executives of PE should feel themselves 'trustees' of the public and play supportive roles and have mutual trust.

And to achieve this, Government should also act, as in business, and take quick decisions on various issues ranging from pay-fixation to investment proposals and other matters such as import-clearance, foreign exchange release and supply of controlled item or expediting supplies from other PEs.

Government should call for periodic reports which should serve to check heartbeat and not to do postmortum.

Government should take timely action to fill in vacancies of Chief Executives and the Directors, and ensure that sanctioned posts do not lie vacant at any stage.

Government should issue specific and objective guidelines, control specific parameters for assistance if any, and leave all other matters for running the enterprise to the Chief Executive.

Government should consider diversification schemes or even gas based plant in U.P. for FCI & HFC, as they have all losing plants in Eastern Region and have excess employment.

8.3 PUBLIC SECTOR CULTURE.

Few observations and recommendations, general as well specific, have been made as a consequent of this study. All the contributory factors responsible for poor performance and low profitability are known to Government, Enterprises and the public in some or the other context. But unfortunately, as seen, there is a wide gap between perception and practices in the public sector, which inspite of best available talent, management education and resources, has not produced optimum results both financially and physically. Rather total picture is dismayal. Most of Management problems and its efficiency hinge on ideology, conflict and philosophy between Government (Bureaucrates, politicians and Ministers) Public (Unions and others), Management (Director, Sr. Executives), which in turn, as discussed, reflects on operating results of the enterprise. Public Sector is public but none of those concerned acts as "Trustees of Public". The problem is not so much of excellence of technical and management institution, important that may be, but the cultivation of an attitude of mind that makes intellectual persuits, work culture, public responsibilities and social inter course, natural expectancies for an accelerated growth. It is in this context concept of 'Public Sector Culture' is visualised and recommended as an overall national strategy for consideration of all those who matters.

8.3.1 BEHAVIORIAL ASPECT AND ROLE OF MAN.

Man has three dimensional - Physical, mental and spiritual, if he puts physical efforts with apt attention (Mental) and full involvement (Spiritual) the output will be optimum and of the highest quality whatever the nature of work he persues may be preparation for examination, playing of a cricket

match, or working on a lathe machine in his shop, on the contrary if he has casual approach, results will be there but not satisfying, not optimum. Similar is the case of a man on job. If he puts his efforts with willingness (mental) and dedication (spiritual) the output is bound to be optimum at minimum cost and of highest quality. This is behaviour aspects of 'Man' who constitutes Human Capital in industry. These abstract qualities - dedication and involvement can only help to bring optimum results otherwise results will be improportionate to the efforts and many times discouraging both in absolute and relative terms.

Let us look at another simple case, A and B have purchased new cars say Fiat, A takes care of his car, spare time and efforts to clean and check water and oil levels, drives carefully, attends any abnormality even rattling sound immediately and undertake servicing regularly. Whereas 'B' drives fast, does not check levels or undertake regular servicing. He starts bothering only when car refuses to move. Obviously car with A will give good KM run and consistant and reliable service while car with B will give reduced KM run and can stop any time.

The concept has been elaborated to drive home the truth that equipment operated properly and carefully with regular preventive maintenance, will yield optimum results. And to achieve this, role of 'Man' behind the machine is significant. 'Cases are not rare when good plants had been spoiled by bad maintenance and where old plants had been made to deliver the maximum by a dedicated team.'

Japanese management is often talked but not practised. The sailent features of Japanese management are:

(a) Once an individual joins 'X' Company, he remains and grows with it.

(b) Management follows, soft 4 'S'model practice, Staff, skills, style and subordinate goals.

These two features, ensure complete interaction between employee and the management and working for each other. The results are known to all of us.

8.3.2 PE EFFICIENCY.

Public Sector is instrumental in achievement of Socio-economic progress in a planned way. Public Sector has reached commanding heights. Investment in Public Sector are huge, but return in form of surpluses and social benefits at macro level are not proportionate to the time 35 years and cost - Rs. 42.811 Crores - spent by 1-4-1985. PE efficiency is a matter of concern for all. PE inefficiency imposes a great costs in terms of foregone social welfare. If PE efficiency can be increased to ensure working of loss making enterprises even at break even point (which is the minimum expectation from a commercial enterprise with all possible multiple objectives otherwise it should run as Public Works Department), the surpluses avilable from FCI and HFC alone would have been 116 Crores and surpluses available from 10 Top loss making companies would be 1094 Crores. This would correspondingly reduce deficit financing, tax burden on the society and consequent inflation. Thus, PE management efficiency is a 'must' for profitability, growth and desired socio-economic development. PE. efficiency cannot be achieved and optimised without involvement and dedication of 'Man' which includes Chief Executive as well. Man issubtle, selfish, a wanderer and a physical, mental and spiritual entity. To control and direct behaviour of 'Man', inculcation and promotion of discipline and culture is necessary.

In emergency of 1975-77, discipline prevailed and production increased. Why? Because it created a discipline and a work-fear psycho. But this cannot be a permanent solution. The need is to develop a 'Public Sector Culture' as an accepted philosophy and approach, similar to 'Army Culture'.

8.3.3 APPROACH TO PUBLIC SECTOR CULTURE.

Army fights the enemies, protects the country against invasions and maintains internal security. Army and Army Chief are disciplined and dedicated to the cause.

Army has its own culture. Nobody leaves army and avoids compliance of orders. It may not be totally incorrect if 'Public Sector Enterprises' are compared to 'Army' which is to fight poverty, generate surpluses for socio-economic growth. Thus, there is a need of developing Public Sector Culture (PSC) by process of rules, regulations and even Act as a National strategy so that PE efficiency is increased and utilisation of resources is optimised to achieve avowed objectives. As a prelude to the 'Public Sector Culture', consideration of the following concepts would be necessary:

i) Creation of management cadre.
In 1956-57 when the Public Sector was just in fancy, and manager/officers of PEs were mostly on deputation from the Government and the Railways, a scheme of developing management cadre, was instituted. First group of Managers under this scheme titled as "Industrial Management Pool" (IMP) was recruited in seven cadres; and posted in the various undertakings. That was the first and the last selection. Probably thescheme became a victim of the bureaucrates in the Government because they, then, lost their privilege of being posted to the Government Undertakings on deputation. The issue of developing a cadre had

again been discussed in various forms of national conventions of Public Enterprises 1976 and 1979. There is a strong need to create and develop at intake level, Administrative, technical, supervisory and operative management cadre trained and dedicated to the Public Sector.

ii) Uniform wage policy, allowances and other benefits in all PEs.

iii) Uniform promotion policy so that relative position of engineers and managers is not disturbed, which causes frustration, constant attempt to change.

iv) Formation of holding companies or Apex Corporation of similar group of enterprises.

v) Once in 'Public Enterprise', one should grow with it.

vi) Suitable training programmes to increase work potentiality (and not career planning) & expertise.

vii) Incentive schemes, productivity linked bonus for each group of industry.

viii) Regular appointment of CE - Not tenure appointment - Chairman can have tenure.

ix) Development of level-II cadre to take over from Chief Executive on his retirement or otherwise.

x) M.O.U. between:

(a) Secretary of the concerned Ministry and the Chief Executive.

(b) Government and the Parliament.

(c) Minister and the Chief Executive.

(d) Chief Executives of different PE.

xi) To redefine concept, role & approaches of vigilance.

xii) To redefine precise parameters of Proprietary Audit, and introduce performance Audit.

Various observations and conclusions made in this study bring to focus the factors, both tangible and nontangible, responsible for poor performance and low profitability or losses of identified enterprises.

It is hoped that the recommendations summarised in the study will break new ground and unfold the scene to seek practical explanations for improving performance and profitability and for evolving out vibrant Public Sector for achieving avowed objectives of Socio-economic growth.