

## CHAPTER-1.

### INTRODUCTION AND RATIONALE OF STUDY.

- 1.1 No country can progress or even effectively retain its freedom without a strong industrial base. And such a base cannot be built in a developing country without state initiative<sup>1</sup>. Our Public Sector is an essential feature and dynamic instrument of socialism. The nineteenth century concept entails that interest of society is best served by the State Enterprises<sup>2</sup>. Most of the developing countries of the world have resorted to State Enterprises with a view to bring about rapid economic development and desired social change.

In India, the congress party which spearheaded the opposition to British rule, came to power in 8 out of the 11 then existing provinces in 1937, and lost no time in setting up a National Planning Committee under the chairmanship of Jawaharlal Nehru, who later became the Prime Minister of India. The National Planning Commission laid stress on agriculture and small and cottage industries to generate employment and reduce pressure on land. Simultaneously, the people's plan (MN Roy's) of the Indian Federation of Labour was drawn envisaging expenditure of Rs. 1,50,000 million spread over a period of 10 years mainly for agricultural development. About same time, the Bombay plan was drawn by industrialists which called for capital expenditure of Rs. 100,000 million spread over 15 years, with stress on industrial development.

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1. Mrs. Indira Gandhi - Inaugural address, First National Convention of Public Enterprises 1976 pg. 7.
  2. SS Khera Government Business - Asian Publishing House 1963.

The idea of planning had taken deep roots in the country and the Government set up a Planning and post war Reconstruction Department which issued statement of industrial policy and drew up schemes of post war Reconstruction which foreshadowed the industrial policy resolution of 1948.<sup>1</sup>

## 1.2 GENESIS OF THE PUBLIC SECTOR.

The Public Sector is a very wide term, which relates to any service or activity rendered and controlled directly or indirectly by the Government including administration, defence, post and telegraph, railways and public sector enterprises or public sector undertakings belonging to the Government as an autonomous corporation under the Company Law and managed by Chief Executive under the direct control of Board of Directors. These Public Sector Enterprises also include services like financial institutions, transport corporations, tourist corporations, nationalised banks and production units like fertilizer units, steel units, refineries, etc. Public Sector Enterprises can belong to Central Government as well as State Governments. In this study Public Sector refers to the Central Government Enterprises.

- . The genesis and the growth pattern of the public sector in India has been influenced by a variety of factors. First of all, there are the long term national objectives,<sup>1</sup> not just economic objectives but social and political ones as well. The changing needs of the economy, as identified in different plan documents, have also influenced the growth pattern of the Public Sector reflecting changes in priorities.

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1. Prof. Y.S. Mahajan - Prices Profits, and Pattern of Investment in Public Enterprises - Published by Centre for Public Sector Studies.

The enunciation of the maiden industrial policy for the independent India is based on the comprehensive industrial policy resolution of 1948. In terms of this resolution only, the key role which the public sector could play in helping economy to achieve the avowed objective of establishing a socialistic pattern of society, was sought to be highlighted. The resolution spelling out the broad contours of the country's prospective industrial growth through promoting, assisting and regulating the development of industries, has also laid down the following major objectives of the public sector.

### 1.3 OBJECTIVES.

1. To achieve a sizable increase in national income so as to raise the standard of living in the country.
2. To help in the rapid economic growth and industrialisation with special emphasis on development of basic and heavy industries.
3. To earn return on investment and thus generate surplus for development.
4. To creat employment opportunities.
5. To promote balanced regional development.
6. To reduce inequalities in income and wealth and a more even distribution of economic power to establish an egalitarian society.
7. To assist the development of Small Scale and ancillary industry.
8. To promote import substitution, self reliance, save and earn foreign exchange.

The plan outlay on the public sector is given in the table below:

Table -1 INVESTMENT OUTLAYS ON PUBLIC SECTOR  
DURING VARIOUS PLANS

		(inRs. Million)		
Period		Total invest ment.	Public Sector	Share of Public Sector (Per cent)
First Plan	1951-56	33,600	15,590	46.40
Second Plan	1956-61	68,310	37,297	54.60
Third Plan	1961-66	112,800	71,854	63.70
Three Annual Plans	1966-69	160,890	65,710	40.84
Fourth Plan	1969-74	226,350	136,489	60.30
Fifth Plan	1974-79	475,610	313,903	66.00

The outlay on the public sector increased many fold from first to the fifth five year plan: The first plan laid emphasis on agriculture. It was second Five Year Plan, which followed the Industrial Policy resolution of 1956, that greater attention was paid to industry both in public and private sector. Second five year plan documents declared " The Public Sector (Enterprises) has to expand rapidly to undertake development which the private sector is either unwilling or unable to take. It has to play a dominant role in shaping the entire pattern of investment in the mixed economy."

With the successive five year plans, the role of the public sector enterprises continued to witness a growing importance. Today the public sector enterprises are making a commendable contribution in major key industries such as coal, power, fertilizers, pharmaceuticals, oil, heavy machinery, electronics etc.

#### 1.4 GROWTH.

The growth of the public sector has been phenomenal. The investment has successively jumped from Rs. 29 Crores in 5 companies at the commencement of First Five Year Plan in April 1951, to Rs. 42,791 Crores in 221 companies by the end of March 1985. The Seventh plan envisages a total public sector outlay of Rs. 1,80,000 Crores of which central public sector share will be of the order of Rs. 43,000 crores.\* The direct employment in the public sector has increased from 9.32 Lacs in 1972-73 to 21.07 Lacs in 1984-85 and total emoluments from Rs. 541 Crores to Rs. 5,642 Crores in the corresponding years. The spectacular growth can be further gauged by the increase in sales value, capital employed, value added, export earning, contribution to exchequer and production in key industries as indicated below:

Growth Index.	1980-81	1984-85
1. Sales Value Rs. Crores	28,635	62,221
2. Capital employed Rs. Crores	18,207	43,096
3. Value added Rs. Crores	4,346	12,505
4. Export earnings Rs. Crores	2,216	5,827
5. Contribution to exchequer	3,302	7,597
6. Industrial production:		
a. Coal                   MMT	1,13,800	1,47,290
b. Petroleum           MMT	10,500	29,000
c. Steel                 MMT	6,300	6,996
d. Fertilizer 'N' MMT	2,163	3,917

The imperatives of accelerated economic growth of the country under the planned development, have given a pivotal role to the public enterprises in the country.

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\* PE Survey 1984-85 - Vol. I.

### 1.5 PERFORMANCE AND PROFITS.

Thus, Public Sector Enterprises occupy a significant place in Indian Economy and they play a pivotal role in the identified development process. However, all the public enterprises are not performing well and operating profitably. The poor performance can be gauged by:

- (a) Groupwise net profit or losses of the PSE in last years 1982-85 as presented in Table-2
- (b) Total losses of 10 top loss making enterprises in 1982-85 - Table-3.
- (c) Number of loss incurring enterprises in 1982-85 - Table-4.

Table -2 GROUPWISE NET PROFIT/LOSSES - 1982-85\*

	(Rs. in Crores)		
	Net profit (+) or Loss (-)		
	1982-83	1983-84	1984-85
a) <u>Manufacturing Enterprises.</u>			
1. Coal	- 6.25	- 243.84	- 78.90
2. Minerals & Metals	-102.54	- 67.12	13.62
3. Agro-based products	1.10	3.04	- 0.36
4. Consumer goods	- 40.80	- 66.00	- 89.02
5. Textiles.	- 9.66	- 158.75	- 197.38
6. Chemicals Fertilisers Pharmaceuticals.	- 10.52	- 65.92	13.08
7. Petroleum	925.61	1,012.75	1,116.99
8. Steel	-176.31	- 243.61	- 82.06
9. Heavy engineering	- 45.91	- 27.79	11.18
10 Medium & Light engineering	56.82	53.61	49.97
11 Transport equipment	- 12.25	38.39	108.60
<u>Total for:</u>			
(a) Manufacturing Enterprises (1 to 12)	594.01	244.05	846.61
(b) Total 1 to 6 & 8 to 12 (excluding Petroleum)	-331.51	- 768.70	- 250.38

\* A statistical review of Public Sector undertakings by CMIE July.83 and Nov. 86.

If we leave out the 'Petroprofits' of petroleum enterprises, the working of all the remaining public enterprises has resulted in a net loss as indicated against (b) above and this has increased to Rs. 499 Crores in 1985-86.

Table-3 TOP TEN LOSS MAKING ENTERPRISES.\*

	(Rs. in Crores)		
	<u>1984-85</u>	<u>1983-84</u>	<u>1982-83</u>
1. Delhi Transport Corpn.	140.79	101.12	-
2. Bharat Loking coal	90.12	191.89	3.64
3. Indian Iron & Steel	81.60	24.06	7.06
4. Hindustan Fertilizer	72.22	72.40	55.35
5. Heavy Engineering Corporation	53.92	51.90	47.48
6. Fertilizer Corporation of India.	44.54	83.16	65.72
7. National Jute Manufacturers.	32.96	-	-
8. NTC (W.B., Assam, Bihar, Orissa)	32.93	37.04	-
9. IDPL.	26.25	19.43	24.01
10 NTC (Maharashtra, North)	23.74	16.03	-
a. Total losses	599.07		
b. Total losses incurred by loss making enterprises (Manufacturing and services)	1094.01		

It has been further observed that out of above ten enterprises, nine enterprises (except National Jute Mfg.) have incurred losses in 1983-84 as well and six enterprises incurred losses in 1982-83 also. Thus major enterprises are chronic losers. In 1984-85, losses of 10 enterprises accounted for 55% of the total losses.

\* Public Enterprises survey BPE 1984-85 Vol.I Pg. 73.

Table-4 PROFIT/LOSS MAKING COMPANIES.\*

Year.	(Unit in percent)		
	Profit making	Loss incurring	Total
1982-83	92	49	141
1983-84	112	81	201
1984-85	116	91	207

The number of loss incurring enterprises is showing an increasing trend.

#### 1.6 PERFORMANCE AND PHYSICAL NORMS.

Even on consideration of physical norms, the Public Sector has not performed well. The following table represents an overall view of the capacity utilisation by Public Enterprises:

Table-5 CAPACITY UTILISATION OF PUBLIC ENTERPRISES\*

Category	1980-81	81-82	82-83	83-84	84-85
1. Units <del>under</del> analysed No.	150	148	164	172	180
2. Capacity utilisation more than 75%	69 (46%)	80 (52%)	90 (55%)	88 (51.2%)	87 (48%)
3. Capacity utilisation between 50% - 75%	39 (26%)	43 (32%)	43 (26%)	49 (28.5%)	47 (26%)
4. Capacity utilisation less than 50%	42 (28%)	25 (16%)	31 (19%)	35 (20.3%)	46 (26%)

Figure in bracket shows % of total number of enterprises. Above table reveals poor utilisation of capacity in Public Enterprises.

The below average optimal use of the installed capacity by 20 major enterprises resulted in an estimated production loss of over Rs. 3450 Crores, which is 22% of their total value of output of around 16,000 Crores in 1982-83\* and losses over Rs. 5480 crores which is about 28% of their total value of output of around Rs. 19,800 crores in 1985-86"

\* PE SURVEY BPC 1982-85 pg. 6.  
A review of Central Government Enterprises by CMIE  
Vol.I - Jul. 83.



### 1.7 IMPACT ON POOR PERFORMANCE AND PROFITABILITY.

It is difficult to visualise a situation in which Public Sector Enterprises continue to incur losses or show an inadequate return on capital invested. How long the public enterprises can survive on doles and budgetary support in violation of all commercial norms?

The losses of public sector enterprises are a heavy burden on the exchequer which in the ultimate analysis, is an extra burden on the common man. No doubt that public sector enterprises have multiplicity of objectives, but it does not mean that they can continue incurring losses or that they should not be run profitably. The Socio-economic philosophy of Public Sector cannot be used out of proportion as a cover to conceal their losses and inefficiency of operation. Profits and productivity of public sector at optimum level are necessary not only to sustain growth of public sector both on Micro and Macro levels but also for boosting the pace of economic development and checking inflation, otherwise the very socio-economic objective, of 'welfare of masses', of public sector is going to be defeated.

Morarji Desai, the then Prime Minister in his inaugural address at National Convention on Public Sector, 1979 had said "on an investment of Rs. 15,000 Crores the country should benefit in such a manner that our development can take place more easily and our resources position becomes strong. But that is not what is happening, only 37 enterprises are, if I may say so, the only one which are working profitably. But the major one - Steel, Coal, Aluminium - are all worked at a loss"<sup>1</sup>. The position is still worse today. Out of 207 enterprises, 91 are incurring losses (Table-4).

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1 Public Sector an Introspection - edited by  
Waris R. Kidwai - SCOPE

Thus, efficient performance and profitability of the public sector enterprises is a matter of vital concern to all and the community has every right to expect a fair return on the capital invested in them.

#### 1.8 BPE SURVEY AND OTHER STUDIES.

The Bureau of public enterprises prepares consolidated report on working and performance of public sector enterprises (manufacturing and services) every year which gives an over-view and does not present a true and fair analysis and comparison of the state of affairs in the public enterprises. It appears to be an exercise more in self praise than any sincere effort of self criticism. The survey, which is basically on Macro basis and talks of aggregates, more serves as a statistical report rather than a managerial guide. The fact that the massive investment in public enterprises yields, in the aggregate, a relatively meagre quantum of reinvestible resources, is indeed a matter of concern. But no remedial action can follow from the recognition.<sup>1</sup>

The Government has been appointing Committees, Commissions and study teams from time to time to go into the working of public sector enterprises and suggest measures to improve performance, productivity and profitability. Besides Committees and Commissions, the role and performance of these enterprises have been discussed and debated in Seminars, Conventions, audit reports, parliamentary committee and recently in the meetings of chief executives convened at the instance of Prime Minister. Emphasis for deliberations has been on autonomy, parliament control, government interference, relations between public enterprise managers and bureaucrats, tenure of chief executive, structure, pricing policy etc. Dr. Arjunsengupta Committee was appointed to review public sector policy.

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1 EARC Report No. 7.

Government is now considering 'white paper' and memorandum of understanding on such issues. In such attempts management inefficiency, in aptitude and apathetic attitude towards cost-reduction measures and other related factors more or less have been camouflaged under the garb of socio-economic and political objectives.

#### 1.9 RATIONALE OF STUDY.

Public sector enterprises have traversed a long distance and have been assigned still more important roles in the years ahead. In recent years the public sector enterprises have faced sharp criticism and have become a concern for all. It is, therefore, necessary to examine the entire issue of their performance and profitability through environmental scanning and empirical analysis. In this context, it is necessary to analyse and evaluate the performance of individual enterprise on Micro level, as each enterprise has its vital role, has impact on the developmental process and has specific problems including location, technology, vintage, infra-structural needs etc, besides general public sector constraints, which affects its performance and profitability.

It is therefore intended to undertake a comprehensive study of the selected public sector fertilizer units producing Urea to identify and examine the factors which have been mainly instrumental in adversely affecting their performance and profitability through environmental scanning and empirical analysis.

Fertilizer sector has been selected as stratified sample because;

- a) it has grown spectacularly in last three decades.
- b) it occupies the significant place in our predominantly agricultural economy.
- c) it is incurring losses year after year.
- d) it presents possible comparison with units in joint sector

The conclusions arrived at from the study, by and large, be applicable to most of the public enterprises.

### 1.10 MAIN OBJECTIVES OF THE STUDY.

1. To examine the trends in the profitability of the public sector Fertilizer Units in India.
2. To identify and quantify the key variables that influence the profitability of the Public Sector Fertilizer Enterprises.
3. To suggest suitable measures to improve their profitability.

### 1.11 MAIN HYPOTHESIS.

In order to achieve these objectives, the following hypothesis have been identified and will be empirically tested for the selected units.

1. The profitability of the public sector enterprises has been lower compared to the profitability of similar units in the private sector.
2. Project implementation, Technology adopted and source of financing of imports for Fertilizer Projects is a significant factor in adversely affecting their profitability.
3. Low capacity utilization has adversely affected their profitability.
4. Operational efficiency and consumption norms have affected their profitability.
5. Poor inventory management is a significant factor in adversely affecting their profitability.
6. Employment pattern of the fertilizer plants has positive correlation with profitability.
7. The concept of 'social objectives' of the public sector enterprises is not a significant factor in adversely affecting their profitability.
8. Exogenously determined price policy is not a significant factor in affecting their profitability.
9. The degree of expenditure control and the profitability of the public sector Fertilizer enterprises have a significant positive correlation.
10. The components of the public sector Management environmental matrix significantly affect their profitability.

#### 1.12 SOURCE OF DATA.

The information needed for the study was collected, checked and compiled from various sources. Annual Reports of the selected enterprises were used for compiling datas and computing desired ratios.

PE Survey Reports, published by BPE have been used for projecting the growth of the Public Sector, its Commanding Heights in National Economy.

Fertilizer statistics published by FAI, Delhi has been used to get the various datas on the Fertilizer production, consumption, imports, input costs, retention prices etc., and computation made in desired forms.

Number of other reports have been referred for collection of necessary information and data as were available and required during the course of study.

Besides a questionnaire was canvassed to get requisite information in respect of man-days lost, project cost escalations, and other operational data, but the response was not satisfactory and information to the extent made available has been used.

A questionnaire (Appendix-III) was issued to General Managers, Deputy General Managers and Chief Engineers of the plants of selected enterprises to collect their qualitative opinions in respect of various factors to the extent applicable to their plants. In addition, personal interviews were arranged with the executives/engineers and employees of various plants to obtain their views on the performance of their plants. There was general reluctance to part with datas. In spite of this, from the assorted views collected a reasonable conclusion could be established.

### 1.13 METHODOLOGY OF THE STUDY.

Technique of ratio analysis has been adopted to examine the profitability of the selected enterprises and their comparative performance both on inter-firm comparison basis and intra-firm comparison basis.

Various factors, that can affect the profitability directly or indirectly of the selected enterprises, have been listed out and classified under the category endogenous and exogenous and further subclassified as primary, secondary and tertiary depending upon their direct, semi-direct or indirect quantifiability. Amongst the classified factors, some factors like project implementation, technology, source of financial capacity, utilization, inventory, employment, emoluments, consumption norms which can be quantitatively expressed are critically examined and correlation is established with profitability.

The attempt is also made to analyse management style, control and coordination procedures of the selected enterprises and their impact on the profitability.

In addition for qualitative comparison of the impact of the various factors, questionnaire was issued and personal interviews held with the managers, engineers and other employees. The replies to the questionnaire and views expressed by the wide spectrum of employees were then evaluated.

After analysing the various factors and their effect on the profitability, summary of conclusions of the study is drawn and suggestions offered.

#### 1.14 DESIGN OF CHAPTERS OF THE STUDY.

Besides the present introductory chapter the study spans over 7 other chapters. Chapter-2 briefly outlines growth of the Fertilizer Industry, the share of the Public Sector Fertilizer Enterprises and the identification of the enterprises for the study. Chapter-3 examines the criteria for performance evaluation of the Public Sector Enterprises and rationale of the financial profitability. Chapter-4 analysis the profitability ratios of the selected enterprises. Chapter-5 classifies and examines various factors that affect directly or indirectly performance and the profitability of the enterprises and further analyse correlation between profitability and various factors namely project implementation, source of financing, technology, equipment, consumption norms, capacity utilization, inventory, input cost, employment, emoluments and social overheads, marketing pricing policy and promotional activities. Chapter-6 describes briefly management style of the selected enterprises and briefly examine structure, controls and coordination viz. the concept of autonomy, accountability and financial control management and personnel management practices, promotion policy and their impact on performance and profitability. Chapter-7 compiles and analyse the views of Managers, Engineers and employees collected through questionnaire and personal interviews. Chapter-8 sets forth the main results and offers suggestions.