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**CHANGE IN ROLE OF PUBLIC SECTOR ENTERPRISES IN INDIA**

INTRODUCTION

“Public enterprises are autonomous or semi-autonomous corporations and companies

established, owned and controlled by the state and engaged in industrial and commercial

activities.”

The business units owned, managed and controlled by the central, state or local government

are termed as public sector enterprises or public enterprises. These are also known as public

sector undertakings.

A public sector enterprise may be defined as any commercial or industrial undertaking owned

and managed by the government with a view to maximise social welfare and uphold the public interest.

Public enterprises consist of nationalised private sector enterprises, such as, banks, Life

Insurance Corporation of India and the new enterprises set up by the government such as

Hindustan Machine Tools (HMT), Gas Authority of India (GAIL), State Trading Corporation (STC) etc.

These are mainly divided into CPSEs,PSBs, and SLPEs. Although investments in government undertakings are done by the government, they become financially independent. They are not dependent on the government for their day- to-day needs. These enterprises arrange and manage their own finances. An element of profitability is also considered while pricing their products. It has helped the enterprises to finance their growth themselves.

Objectives

In India, public enterprises have been assigned the task of realising the objectives laid down in the Directive Principles of State Policy.

The main objectives of public enterprises in India are as follows:

**1.** **Economic development:**

Public enterprises were set up to accelerate the rate of economic growth in a planned manner. These enterprises have created a sound industrial base for rapid industrialisation of the country.

They are expected to provide infrastructure facilities for promot­ing balanced and diversified economic structure of development.

**2.** **Self-reliance:**

Another aim of public enterprises is to promote self-reliance in strategic sectors of the national economy. For this purpose, public enterprises have been set up in transpor­tation, communication, energy, petro-chemicals, and other key and basic industries.

**3.** **Development of backward Areas:**

Several public enterprises were established in back­ward areas to reduce regional imbalances in development. Balanced development of different parts of the country is necessary for social as well as strategic reasons.

**4.** **Employment generation:**

Unemployment has become a serious problem in India. Public enterprises seek to offer gainful employment to millions. In order to protect jobs, several sick units in the private sector have been nationalised.

**5.** **Economic surplus:**

Public enterprises seek to generate and mobilise surplus for reinvest­ment. These enterprises earn money and mobilise public savings for industrial development.

**6.** **Egalitarian society:**

An important objective of public enterprises is to prevent concentra­tion of economic power and growth of private monopolies. Public sector helps the Government to enforce social control on trade and industry for ensuring equitable distribution of goods and services. Public enterprises protect and promote small scale industries.

**7.** **Consumer welfare:**

Public enterprises seek to protect consumers from exploitation and profiteering by ensuring supply of essential commodities at cheaper prices. They aim at stabilising prices.

**8.** **Public utilities:**

Private sector is guided by profit motive. Therefore, it is reluctant to invest money in public utility services like water supply, gas, electricity, public transport. There­fore, the Government has to assume responsibility for providing such services.

**9.** **Defence:**

Government has to set up public enterprises for production of defence equip­ment. Supply of such equipment cannot be entrusted for private sector due to the need for utmost secrecy.

**10.** **Labour welfare:**

Public enterprises serve as model employers. They ensure welfare and social security of employees. Many public enterprises have developed townships, schools, col­lege and hospitals for their workers.

significance

The public sector has been playing a vital role in the economic development of the country. In fact the public sector has come to occupy such an important place in our economy that on its effective performance depends largely the achievement of the country's economic and social goals.

Public sector is considered a powerful engine of economic development and an important instrument of self-reliance. The main contributions of public enterprises to the country's economy may be described as follows:

**1. Filling of gaps:**

At the time of independence, there existed serious gaps in the industrial structure of the country, particularly in the field of heavy industries. Basic and key industries require huge capital investment, involve considerable risk and suffer from long gestation peri­ods.

Private sector concerns do not come forward to establish such industries. Public sector has helped to fill up these gaps. The basic infrastructure required for rapid industrialisation has been built up, through the production of strategic capital goods.

The public sector has considerably widened the industrial base of the country and speeded up the pace of industrialisation.

**2. Employment:**

Public sector has created millions of jobs to tackle the unemployment problem in the country. Public sector accounts for about two-third of the total employment in the organised industrial sector in India.

By taking over many sick units, the public sector has pro­tected the employment of millions. Public sector has also contributed a lot towards the improve­ment of working and living conditions of workers by serving as a model employer.

**3. Balanced regional development:**

Private industries tend to concentrate in certain regions while other regions remain backward. Public sector undertakings have located their plants in backward and untraded parts of the country.

These areas lacked basic industrial and civic facilities like electricity, water supply, township and manpower. Public enterprises have devel­oped these facilities thereby bringing about complete transformation in the social-economic life of the people in these regions.

Steel plants of Bhilai, Rourkela and Durgapur; fertilizer factory at Sindri, machine tool plants in Rajasthan, precision instruments plants in Kerala and Rajasthan, etc., are a few examples of the development of backward regions by the public sector.

**4. Optimum utilisation of resources:**

Public enterprises make better utilisation of scarce resources of the country. They are big in size and able to enjoy the benefits of large scale operations.

They help to eliminate wasteful completion and ensure full use of installed capacity. Optimum utilisation of resources results in better and cheaper production.

**5. Mobilisation of surplus:**

The profits earned by public enterprises are reinvested for ex­pansion and diversification. Moreover, public sector concerns like banks and financial institu­tions mobilise scattered public savings thereby helping the process of capital formation in the country. Public enterprises earn considerable foreign exchange through exports.

**6. Self reliance:**

Public enterprises have reduced considerably the need for imports by producing new and better products within the country. These enterprises are also earning consid­erable amount of foreign exchange through exports.

**7. Socialistic pattern of society:**

Public sector is an instrument for realising social objec­tives. Public enterprises help to check concentration of wealth and private monopolies. These enterprises can serve as powerful means of economic and social change.

**8. Public welfare:**

Public enterprises help in the establishment of a welfare state in the country. These enterprises supply essential commodities at cheaper rates.

A proper balance be­tween demand and supply is created to protect consumers against exploitation by profit hungry businessmen. Public enterprises also protect and promote the interests of workers.

pre liberalisation era (1949-1991)

**REASONS FOR SETTING UP PSUs**

When India achieved independence in 1947, India was primarily an agricultural country with a weak industrial base. The national consensus was in favour of rapid industrialisation of the economy which was seen as the key to economic development, improving living standards and economic sovereignty.

Building upon the [Bombay Plan](https://en.wikipedia.org/wiki/Bombay_Plan), which noted the requirement of government intervention and regulation, the first Industrial Policy Resolution announced in 1948, the [Planning Commission](https://en.wikipedia.org/wiki/Planning_Commission_(India)) was constituted in March 1950 and the Industrial (Development and Regulation) Act was enacted in 1951 with the objective of empowering the government to take necessary steps to regulate industrial development.

 Prime Minister [Jawaharlal Nehru](https://en.wikipedia.org/wiki/Jawaharlal_Nehru) promoted an economic policy based on [import substitution industrialisation](https://en.wikipedia.org/wiki/Import_substitution_industrialisation) and advocated a [mixed economy](https://en.wikipedia.org/wiki/Mixed_economy). He believed that the establishment of basic and heavy industry was fundamental to the development and modernisation of the Indian economy. India's second [five year plan](https://en.wikipedia.org/wiki/Five-Year_Plans_of_India) (1956–60) and the Industrial Policy Resolution of 1956 emphasised the **development of public sector enterprises** to meet Nehru's national [industrialisation](https://en.wikipedia.org/wiki/Industrialisation" \o "Industrialisation) policy.

The major consideration for the setting up of PSUs was to accelerate the growth of core sectors of the economy to serve the equipment needs of strategically important sectors, and to generate employment and income. A large number of "[sick units](https://en.wikipedia.org/wiki/Industrial_sickness)" were taken over from the private sector. Additionally, [Indira Gandhi](https://en.wikipedia.org/wiki/Indira_Gandhi)'s government [nationalised](https://en.wikipedia.org/wiki/Nationalisation" \o "Nationalisation) fourteen of India's largest private banks in 1969, and an additional six in 1980.

This government-led industrial policy, with corresponding restrictions on private enterprise, was the dominant pattern of Indian economic development until the [1991 Indian economic crisis](https://en.wikipedia.org/wiki/1991_Indian_economic_crisis). After the crisis, the government began [disinvesting](https://en.wikipedia.org/wiki/Divestment) its ownership of several PSUs to raise capital and privatise companies facing poor financial performance and low efficiency.

***The Industrial Policy Resolution 1956 classified industries into three categories with respect to the role played by the State -***

* **THE FIRST CATEGORY** 
  + Included industries whose future development would be the exclusive responsibility of the State.
* **THE SECOND CATEGORY** 
  + Included Enterprises whose initiatives of development would principally be driven by the State but private participation would also be allowed to supplement the efforts of the State.
* **THE THIRD CATEGORY** 
  + Included the remaining industries, which were left to the private sector.

Arguments against Public Enterprises

Public enterprises are opposed on account of weaknesses in their organisation and working. These enterprises generally suffer from the following problems:

**1.** **Delay in completion:**

Often a very long time is taken in the establishment and comple­tion of public enterprises. Delay in completion leads to increase in the cost of establishment and benefits extracted from them are delayed.

**2.** **Faulty evaluation:**

Public enterprises are in some cases set upon political considerations. There is no proper evaluation of demand and supply and expected costs and benefits. There are no clear cut objectives and guidelines.

In the absence of proper project planning there is under- utilisation of capacity and wastage of national resources.

**3.** **Heavy overhead costs:**

Public enterprises often spend huge amounts on providing hous­ing and other amenities to employees. Though such investment is useful for employees but it takes away a large part of capital and the project suffers from financial difficulties.

**4.** **Poor returns:**

Majority of the public enterprises in India are incurring loss. In some of them the profits earned do not yield a reasonable return on huge investment. Lack of effective financial controls, wasteful expenditure and dogmatic pricing policy result in losses

**5.** **Inefficient management:**

Due to excessive centralisation of authority and lack of motiva­tion public enterprises are managed inefficiently. High level posts are often occupied by persons lacking necessary expertise but enjoying political support.

**6.** **Political interference:**

There is frequent interference from politicians and civil servants in the working of public enterprises. Such interference leaves little scope for initiative and free­dom of action. Public enterprises enjoy little autonomy and flexibility of operations.

**7.** **Labour problems:**

In the absence of proper manpower planning public enterprises suffer from over-staffing. Jobs are created to fulfil employment goals of the Government. Guarantee of job in these enterprises encourages trade unions to be militant in pursuing their aims.

**performance of public sector industries**

POST – LIBERALIZATION ERA

(1991-PRESENT)

**DISINVESTMENT** **AND** **PRIVATIZAITON**

Disinvestment refers to the dilution of government’s stake in a public enterprise. If the dilution of government’s stake involves the transfer of management and control of the enterprise as well then it is referred to as privatization. Thus if  the government transfers 51 percent or more shares of public enterprise to the private shareholders then this dilution would transfer the majority of decision making power of the government.  If less than 50 percent government’s shareholding is transferred then the effective control would remain in the hands of government and the enterprise is not said to be privatized.

           Thus privatization involves the dilution of government’s shareholding that also leads to the effective change to management and control. Disinvestment is wider in its meaning that extends to dilution of government’s shareholding to a level where there is no change in the control to the dilution that results in the transfer of management i.e privatization.

**CLASSIFICATION OF PSUs**

* **MAHARATNA**
* **NAVRATNA**
* **MINIRATNA**
* Maharatna
  + **Average annual turnover of 25,000 crores in last three years. The average net worth of the company should be 15,000 crores.**
* Navratna
  + **A score of 60 (out of 100), based on six parameters which include net profit, net worth, total manpower cost, total cost of production, cost of services, PBDIT (Profit Before Depreciation, Interest and Taxes), capital employed, etc.**
  + **Having Miniratna-I status and at least three ‘excellent’ or ‘very good’ MoUs.**
* Miniratna
  + **I – Profit in last three cont. years ,at least one year should have 30 Cr or more pre-tax profit and should’ve net positive worth.**
  + **II – All three years should’ve net positive worth.**
* Maharatna
  + The coveted status empowers the boards of firms to take **investment decisions up to 5,000 crores as against the present 1,000 crores limit without seeking government approval**. The Maharatna firms would now be free to decide on investments up to 15% of their net worth in a project.
* Navratna
  + The Navratna status empowers PSEs to **invest up to 1000 crore or 15% of their net worth on a single project without seeking government approval**.These companies **can spend up to 30% of their net worth not exceeding 1000 Cr in a year.** They also enjoy the freedom to enter joint ventures, form alliances and float subsidiaries abroad.
* Miniratna
  + **I** – Mniratnas-I have autonomy to incurring the capital expenditure **without government approval**  **up to 500 crore or equal to their net worth, whichever is lower.**
  + **II** – Miniratnas-II have autonomy to incurring the capital expenditure **without government approval up to 300 crore or up to 50% of their net worth whichever is lower**.

% share of Public & Private Sector in Capital Formation

**CASE STUDY BSNL**

**ABOUT BSNL**

* Bharat Sanchar Nigam limited was formed on 1st October 2000 by corporatising Department of Telecom Services and Department of Telecom Operations. BSNL is fully owned by Government of India and operates throughout the country, except Delhi and Mumbai.
* BSNL board comprises of Chairman and Managing Director, seven board of Directors, with two nominated from Ministry of Communications, and a Company Secretary.

**VISION**

* Be the leading telecom service provider in India with global presence
* Create a customer focused organization with excellence in customer care, sales and marketing
* Leverage technology to provide affordable and innovative telecom services / products across customer segments

**MISSION:**

**a) Be the leading telecom service provider in India with global presence**

* · Generating value for all stakeholders – employees, shareholders, vendors & business
* associates
* · Maximizing return on existing assets with sustained focus on profitability
* · Becoming the most trusted, preferred and admired telecom brand
* · To explore International markets for Global presence

**b) Creating a customer focused organization with excellence in sales, marketing and**

* **customer care**
* · Developing a marketing and sales culture that is responsive to customer needs
* · Excellence in customer service-”friendly, reliable, time bound, convenient and
* courteous service”

**c) Leveraging technology to provide affordable and innovative products/services across**

* **customer segments**
* · Offering differentiated products/services tailored to different service segments
* · Providing reliable telecom services that are value for money

**d) Providing a conducive work environment with strong focus on performance**

* · Attracting talent and keeping them motivated
* · Enhancing employees skills and utilizing them effectively
* · Encouraging and rewarding individual and team/group performance

**e) Establishing efficient business processes enabled by IT**

* · Changing policies and processes to enable transparent, quick and efficient decision
* making
* · Building effective IT systems and tools

**OBJECTIVES**

* To be the Leading Telecom Services provider by achieving higher rate of growth so as to become a profitable enterprise.
* To provide quality and reliable fixed telecom service to our customer and thereby increase customers confidence.
* To provide customer friendly mobile telephone service, with focus on Value added service and data services, of high quality and play a leading role as GSM operator in its area of operation.
* To leverage the existing infrastructure of BSNL for facilitating implementation of other government programmes and initiatives particularly in the rural areas.
* ·To look for the opportunity of possible expansion of BSNL footprint globally by exploring international telecom in developing markets such as Africa.

**BSNL IN NATION BUILDING**

**IMPLEMENTATION OF GOVERNMENT**

**PROJECTS**

***Bharat Net:-***As part of this ambitious Ditigal

India plan, Your Company is implementing the

target of laying of OF cable for 70,000 Gram

Panchayats across the country, of which, 26,000

Gram Panchayats have already been covered.

***Network for Spectrum(NFS):-***Your Company is

laying the OF Cable for defense network.

10,000 RKMs of OFC has already been laid.

***Left Wing Extremism affected areas(LWE):-*** As

part of Government of India initiative to provide

connectivity to the LWE affected areas, out of

the proposed 1836 BTSs ,1825 BTSs have been

installed and commissioned.

***Development of communication networks of***

***NE Region:-***To ensure a comprehensive

telecom transmission network development in

the North Eastern Region of the Country, Your

Company is laying 3218 KMs of OF Cable in the

region.

**SKILL DEVELOPMENT – SUPPORT IN**

**NATION BUILDING**

**Training under National Skill Development**

**Scheme**

Pursuant to the National Skill Development

Scheme, Your Company imparted training to

7121 students, thus achieving a target of 94.9%

against the MoU Target of 80% [6000]. Out of

7,564 number of students allotted for BSNLAICTE

EETP, 7,501 number of students joined

the training.

Being a leading pan India public sector telecom

service provider, Your Company always excels

in the area of disaster management, specially in

the areas of faster restoration of communication

facilities in the areas affected by natural

calamities. During the devastating floods of

Chennai, Your Company swung into action and

restored the communication facilities in record

time.

As part of the nation-wide Swachh Bharat

Abhiyan, Your Company organized a Swachh

th Bharat Pakhwada from 17 September 2016

onwards.

Being a responsible corporate citizen, Your

Company has also been implementing various

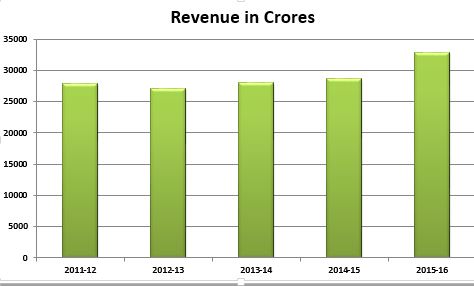
other green initiatives time and again i.e., Use of

alternate energy resources, Energy conservation

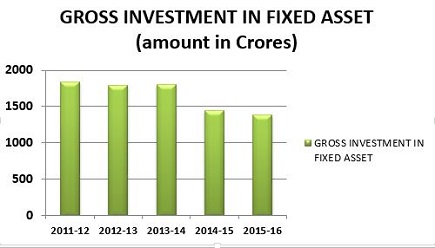
measures, Rain water harvesting in its

premises etc.

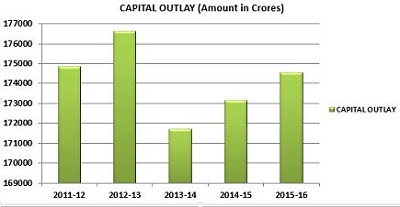
Revenue earned by BSNL during last five years



Gross Investments in Fixed Assets of BSNL during last five years.



Gross Fixed Assets of BSNL during last five years



conclusion

● The public sector is an integral part of the Indian economy and a key growth driver.

With the advent of globalization, the public sector gained credence in the face of faced

new challenges in developed economies. This sector provided the required thrust to the

economy and developed and nurtured human resources, the vital ingredient for the

success of any enterprise.

● As we know the economic environment is changing day by day, so any policies or rules

cannot be said to be fruitful forever. For some time it may be good for the economy but

it has to be amended one day or the other. So we can say that the change in the role of

public sector enterprises can be good as well as bad when seen from all point of views.

● The change in role has two effects -positive as well as negative. Positive effect can be

the increase in the efficiency of the industries due to the involvement of private sector,

thus increasing the competition in the market, inclusion of better technology,

improvement in quality of the product, increase in the accountability to the public,

increase in the investments leading to more and more new projects for the betterment

of the society.

● The negative effect can be change from government controlled economy to the market

driven economy. Initially the economy was government controlled as all the power was

in the government's hands, so it was predictive and it did not lead to much major

losses, as it was under control. But later it has turned to market driven due to the

privatization, now it is not predictive and cannot be fully controlled by government, it

has many dangers.One of the example is Great Depression of 2008.