PUBLIC SECTOR GOALS : A CASE STUDY OF BHEL

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MANPREET KAUR

CENTRE OF POLITICAL STUDIES
SCHOOL OF SOCIAL SCIENCES
JAWAHARLAL NEHRU UNIVERSITY
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JAWAHARLAL NEHRU UNIVERSITY
NEW DELHI
CENTRE FOR POLITICAL STUDIES
SCHOOL OF SOCIAL SCIENCES

DECLARATION

Certified that the dissertation entitled "PUBLIC SECTOR GOALS : A CASE STUDY OF BHEL" which is being submitted by MANPREET KAUR for the award of the degree of MASTER OF PHILOSOPHY, is her own work based on secondary sources and may be placed before the examiners for evaluation. This dissertation has not been submitted for the award of any other degree of this University or elsewhere.

CHAIRPERSON

PROF. C.P. BHAMBHRI
(SUPERVISOR)

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PREFACE

In the last four decades, public sector has become more or less a universal phenomena. Its spheres have been gradually expanding and embraces almost all aspects of economic activity. It has played a vital role in economic reconstruction of this country. However, the concept and policies of liberalisation has become a threat to the very existence of these enterprises. This threat has become more real with the IPR of 1991 which has stated major structural changes for the economy.

This dissertation is classified into four chapters where an attempt has been made to recognise the need for public sector in the present Indian situation. The IPR of 1991 has been critically analysed with emphasis on its public sector policy. The emergence and growth of PE, as a method of economic development has created many important organisational, administrative and management problems. Parliamentary control over PE is one such important problems for which the case study of BHEL has been taken up. Emphasis has been mainly on analysing the recommendation of the CPU and evaluating its effectiveness. Finally new questions arising in the present new scenario have been discussed and suggestions made.

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MKaur

(MANPREET KAUR)

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A C R O N Y M S

AICC	ALL INDIA CONGRESS COMMITTEE
ARC	ADMINISTRATIVE REFORMS COMMITTEE
BHEL	BHARAT HEAVY ELECTRICALS LIMITED
BIFR	BOARD OF INDUSTRIAL AND FINANCIAL RECONSTRUCTION
BPE	BUREAU OF PUBLIC ENTERPRISES
C&AG	COMPTROLLER AND AUDITOR GENERAL
CPU	COMMITTEE OF PUBLIC UNDERTAKING
DPR	DETAILED PROJECT REPORT
EC	ESTIMATE COMMITTEE
FERA	FOREIGN EXCHANGE REGULATION ACT
GDP	CROSS DOMESTIC PRODUCT
IMF	INTERNATIONAL MONETARY FUND
IPR	INDUSTRIAL POLICY RESOLUTION
LDC	LESS DEVELOPED COUNTRIES
LIC	LIFE INSURANCE CORPORATION
MNC	MULTINATIONAL COMPANIES
MOU	MEMORANDUM OF UNDERTAKING
MRPT	MONOPOLIES AND RESTRICTIVE TRADE PRACTICES ACT
NIP	NEW INDUSTRIAL POLICY
PAC	PUBLIC ACCOUNTS COMMITTEE
PC	PARLIAMENTARY COMMITTEES
PE	PUBLIC ENTERPRISES
SBI	STATE BANK OF INDIA
SCOPE	STANDING CONFERENCE OF PUBLIC ENTERPRISES

C H A P T E R - I

INTRODUCTION

CHAPTER - I

INTRODUCTION

'Public Section' has emerged as the most vital part of Indian economy. It was realised after independence that state intervention in industrial activity was necessary to overcome backwardness and colonial pattern of economic development. In this chapter, an attempt will be made to explain the growing need of state intervention in all types of economies-socialist or capitalist economy : developing or developed economy. The political and economic changes in India including the Industrial policies which led to the growth of public sector has been explained. Mention has also been made to the objectives of public sector in India.

Presently, in almost all countries the government is engaged actively and directly in the setting up and management of economic and industrial enterprises. The political leaders and governments of developing countries have accorded greater significance to socio-economic development due to the realisation that it cannot be left to the market forces. Besides, public sector has always been present in one form or another ever since the inception of the institution of the state. Observing the change of role of public enterpeises (PE) over time, Friedman states - "Its growth indicates a significant change in economic and social thinking between 19th and mid-20th century. The theory still prevalent a century ago that the state was limited to certain supervisory functions, mainly in the field of military and foreign affairs, police and justice, and that it had no business to enter the field of industry, has given way to the recognition that the intervention of the state in these fields is a legitimate and indispensable function of modern government. Its development is due to a variety of motives, pressures and purposes which differ from country to country and from government to government."

PE also referred to as public sector, states, Government Undertakings/Enterprises, State-owned Enterprises parastatal bodies/organisations and so on, are not susceptable to easy definitions. It is because any attempt to define PE involves financial, legal and control aspects, on one hand and matters of flexibility territory and allocation of powers among various ministries on other hand. For all practical purposes, however, enterprises that are wholly or partly owned by the government and in whose decision-making process the government exercises a degree of control, can be termed as PE. This meaning of the term PE encompasses almost all developmental activities taken by the government like agriculture, industry, health, education, water and power supply etc.

Why State Intervention for Capitalism?

The functioning of capitalism left tremendous discontent among the common people. In major capitalist countries, demands were made for active state intervention to redistribute wealth more equitably and to create more humane conditions for work. This state would initially, provide conditions in favour of working class but step by step would take charge of the entire economic production and distribution according to the needs of the people. No doubt, it would become an active force in economic field under capitalism.

A.R. Desai in his 'Recent Trends in Indian Nationalism' enumerates five principal reasons for the necessity of capitalist state to intervene in the functioning of the capitalist economy.

(i) Private capital is unable to provide resources for massive investment required for modern highly developed technical equipment for industrial and other enterprises;

(ii) Private monopolies require aid from state to successfully complete in the international market where even giant monopolies look puny before still greater oligopolies.

(iii) Strategic and military requirements of the state demand heavy and massive military equipments.

(iv) State Intervention becomes necesary to regulate the intensifying class struggle in favour of propertied classes.

(v) State planning and regulation of the functioning of capitalism has become crucially necessary to maintain the stability of the national economy and further, to strengthen the competitive power of the national capitalist economy in the international sphere.

The realisation of the importance of state intervention in capitalist countries became clear by the fundamental mark left by the world economic crisis of 1929-33 and the exigencies of the Second World War. During the inter-war period, the bourgeoisie throughout the world and in India increasingly came to realise that the laissez-faire age could not cope up with the crises faced by capitalist system of production. The need was felt to strike a new path through certain institutional changes which would enable stable capitalist development. The idea of planning, coordination, centralisation, balanced development, state management etc. became current all over the world, particularly in U.K. and U.S. In U.K. between 1918 and 1939, three important nationalisations took place. British Board Casting Co. became British Broadcasting Corporation in 1926, the Central Electricity Board became National Electricity Board in 1926 and in 1933, the London Passenger Transport Board was created.4 After Second War too, when the Labour Party came into power for the first time, it embarked upon nationalisation of some 20% of the British industries including vital industries like power and transport upon which all other industries depended.5

The keynesian economies had defined a new role for the state in which the state has not had to have a greater monetary and fiscal control but it was to participate directly in the production process in certain spheres.6 The Great October Revolution in Russia also contributed in ushering the path of development where state would be central instrument for development.

In colonial and semi-colonial countries, the state had the responsibility to rescue the people both from the foreign rule and from the miseries created by capitalist system. Thus, as a result of exigencies of capitalist class and masses both in advanced and colonial countries, a climate of active and positive economic function for the state was created. On one hand, the active role of the state would protect and develop capitalism while on the other hand, the role of state was identified with socialism as required by the masses. But, by itself, public sector cannot be referred as socialist. While expanding, it may develop capitalism but at the same time, may also adopt policies which does not encourage socialism. Thus, it serves both the capitalist path of development and socialist economy.

The need of PE which was felt necessary in advanced capitalist countries was considered indispensable for the developing countries where the state would become the central instrument of economic activity. A.H. Hanson rightly states, "In every country, economic development via public enterprises is a matter of necessity, not of choice. It is not, for them, a very important question where existing private enterprises should or should not be nationalised. The primary question is by what means the state which alone possesses the means of mobilising adequate supplies of capital and of managerial skills, can best undertake the development of those undertakings, of industrially, extractive or public utility types without which backwardness cannot be overcome and national independence itself cannot be fully generated."7

Why State Intervention in India?

Many of the less developed countries which had attained independence in 1940's and 1950's felt the need of basic industries. These alone could clear the backlog of industrial development by reducing regional disparities and bringing about all-round development. Public sector was to assume the 'commanding heights' and was to become a 'model employer'. It was also supposed to serve as a catalystic agent for growth and employment multiplier.

Before independence, India did not have a planned economy. India, an agricultural country, was providing raw material for British industries. However, after independence, it became the responsibility of the government to make attempts to remove poverty, malnutrition, desease and illiteracy and ultimately improve the standard of living of the people of the country. These problems, needed to be tackled in a planned and systematic manner. This led to the intervention of Government in various spheres of economic enterprise. To understand the need for public sector as a strategic choice for economic development, it is important to recaptulate the state of Indian economy at the time of independence.

The Indian capitalist class believed that British rule had hampered India's development and the government could alone assume the responsibility for the economic development of the country. Major Indian capitalist groups led by Tata's and Birla's formulated the famous plan 'Bombay Plan' or 'Tata-Birla Plan' emphasising the role of state in reconstruction of the Indian economy. The plan assumed that by expanding public sector, the economy could be led towards prosperity along a path of capitalist line. The plan proposed that government should undertake vital economic activities and provide the infrastructure necessary for industrial development and for overcoming bottlenecks created by imperialism to discourage industrialisation and retard economic growth.

India, at the time of independence, was primarily an agrarian country with a weak industrial base, low level of saving and investment and a near absence of infrastructural facilities. Our mineral resources needed large-scale exploration and exploitation but the people were untrained in industrial skills. It was clear that the capitalist class could not obviously Marshall the necessary resources to match the heavy capital outlay. Besides, they would also find it unattractive to invest into areas which meant high investments, long gestation periods, low yield and required induction of high technology from abroad. Hence, Nehru envisaged the concept of public sector in order to provide public investment in basic industries such as steel, power, fertilizer, cement, coal, oil and natural gas which would also provide infrastructure to the private sector.

Given the type of range of problems faced by the country on its economic, social and strategic fronts, it became a pragmatic compulsion to deploy the public sector as an instrument of self-reliant economic growth. This would help in developing a sound agricultural and industrial base, diversify the public economy and overcome the economic and social backwardness.

Objectives of Public Sector:

The major objectives of public enterprises have been summarised as follows:

(i) to help in the rapid economic growth and industrialisation of the country;

(ii) to create necessary infrastructure for economic development;

(iii) to provide commercial surplus which would finance the further growth of the economy;

(iv) to provide critical development in terms of social gains or strategic value rather than primarily on consideration of profit i.e. promote redistribution of wealth, create employment opportunitires and promote balanced regional development;

(v) to promote import substitution save and earn foreign exchange for the economy.

Gunnar Mydral has also stressed the importance of state planning and control of the economy so as to8

(i) 'squeeze and twist' consumption and thereby enhance capital formation and productive investment;

(ii) keep out non-essential imports;

(iii) invest in social and economic overheads and in basic industries;

(iv) eliminate speculative and monopolistic practices;

(v) obtain loans from the government and private organisations of other countries; and

(vi) ensure that the drive for private profit does not result in gross inequalities.

Thus, it was evident that structural transformation could only be brought through political intervention and planning. Though, a number of plans like Bombay Plan, Gandhian Plan etc. had been formulated during the later years of British rule but there was disagreement among the members of Congress political elite. The disagreement arose as Nehru was a socialist, Patel favoured private enterprises and Gandhians, on one side, thought in terms of predominantly agriculture and handicraft economy with self-sufficient village as its base. Ultimately, Nehru whose socialist ideas were combined with philosophical principles agreed for board principles of socialist transformation even while approving the conservative economic policies. In 1947, after the independence of India was negotiated, AICC appointed an economic programme commission whose recommendations became the basis of subsequent IPRs. Eight months later, in April 1948, the Government of India brought out the IPR of 1948.

Industrial Policy of 1948:

India found itself in a very unsatisfactory situation in 1947. 80% of tghe industrial activities were restricted to cotton, jute, textiles, coal and steel, where cotton and textiles dominated. Thus, the need to develop and expand was manifested in the Industrial Policy of 1948 - "A dynamic national policy must be directed to a continuous increase in p;roduction by all possible means, side by side with the measures to secure its equitable didstribution."9

In the pre-independence India, the domain of public sector was confined to Railways, Post and Telegraph, Post Trusts, Ordinance and Aircraft factories and a few other state managed industries. Britishers always opposed any kind of heavy industries controlled and managed by Indians. But with the attainment of independence in 1947, the government took the initiative for planned development and regulation of industries in the national interest. This has been largely emphasised in IPR of 1948 which led to the evolution of public sector. It was clearly stated that the state was required to play a larger role in the economic development of the country. The main objective was to promote a rapid rise in the standard of living of the people, by exploiting the latent resources of the country, by increasing production and by offering opportunities to all for employment in the service of the community. The industries were divided into four broad categories:

The first category included strategic industries in which ownership was exclusively confined to the state viz. manufacture of arms and ammunition, production and control of atomic energy, ownership and management of railways transport communication and postal services.

The second category consists of coal, iron and steel, aircraft-manufacture, ship-building, manufacture of telephones, telegraphs, wireless apparatus and minerals. New undertakings in this field could hence be undertaken only by the state. The government also reserved the right to take over an existing unit in the second category of industries 'wherever public interest required it.'

The third category covered industries of such basic importance that the central government would feel it necessary to plan and regulate them in the interest of economic growth of different regions of India or which required considerable investment or high degree of technical skill.

The fourth category comprising of the remainder of the industrial field was left open to private enterprises.

The coming of industrial policy surprised the country. Describing the situation Michael Brecher writes "...when it came to Nehru's advisors and critics alike were surprised. Here was no programmes of revolutionary change. Indeed, there was little resemblance to socialism. The business community was jubiliant but radicals were crestfallen at the retreat from socialism."10

The IPR of 1948 confined state intervention to infrastructural facilities. It was a far cry from the socialist pronouncement made by Nehru earlier in that behalf, it created a favourable climate for their growth. It left most of the consumers goods industries which were privately owned and constituted a part of the private sector, in private hands.

It was partition along with communal violence, decline in production, strike of capital etc. which made Nehru cautious. Hence Nehru introduced the concept of Mixed Economy with separate spheres allotted to public and private sectors, justifying this Nehru stated -

"India is an underdeveloped country with limited capital and skill, both public and private. A steady increase in the production is the prime requisite if the basic goal of higher standards of living for the masses is to be achieved. Both public and private capital have important roles to play even in efficient private enterprise. To use public funds for nationalisation of existing industries is both short sighted and fool hardy. It is a waste of resources for it does not increase the gross national product and diverts capital from much needed growth in the key sectors of the economy."11

Further stating the need for mixed economy, Nehru said "our economy and social structure have outlived their day, and it has become a matter of urgent necessity for us to refasten them... fundamental transformation of this structure. Of a society which is not dominated by the urge of private profit and by individual greed and in which there is fair distribution of political and economic power."12

By laying down the foundation of mixed economy, Nehru gave a new sense of direction and purpose to the whole process. He rightly summarised the situation in his speech in the Parliament and stated - "when there is such vast field to cover, it is foolish to take charge of the whole field when you are totally incapable of using that area yourself."13

In between 1947-51, the domain of public sector took in its fold the Reserve Bank, and initiated some important ventures, such as river-valley and power projects, Chittranjan Locomotives, Sindri Fertilizers and Chemicals, Machine Tools etc. A little later, Airlines, the Imperial Bank and L.I.C. were also included. But Nehru, from the beginning, had been dissatisfied with the narrow economic goals of planning. Thus he came up with an economic development strategy from a dual prespective. On one hand, India would advance towards a socialist economy in which public sector share of investment and output in organised industries would increase in relation to the private sector. On the other hand, it was stressed that a self-reliant industrial economy should also be created and the problem of unemployment solved. Both the Congress Party and the government agreed upon these objectives and Lok Sabha, in December 1954, affirmed that the objectives of our economic policy should be a socialist pattern of society and it is towards this end that the tempo of economic activity in general and industrial development in particular should be stepped up.

Nehru, in January 1955, moved the Avadi Resolution, "In order to realise the object of the Congress as laid down in

Article 1 of the Congress Constitution and to further the objective of the Preamble and Directive Principles of State Policy of the Constitution of India; planning should take place with the view to the establishment of a socialistic pattern of society where the principal means of production are under social ownership or control; production is progressively speeded up and there is equable distribution of national wealth."14

What India wanted was a socialistic pattern of society where social gain and social justice would be emphasised instead of private profit. It was the state which could maximise this social gain and social justice by encouraging the growth of public sector. This succeeded in giving a concrete direction to the general principles governing the planned development. This planned development and socialist pattern of society were emphasised in the IPR of 1956.

Industrial Policy of 1956:

According to the Industrial Policy adopted on April 30th, 1956 - "... the State must progressively assume a predominant and direct responsibility for setting up new industrial undertakings and development for developing facilities, or in the nature of public utility services should be in the public sector... The State has, therefore, to assume direct responsibility for the future development of industries over a wider area."15

Significant changes had taken place in eight years when Industrial Policy of 1956 replaced the 1948 resolution. The Constitution had been enacted guaranteeing certain Fundamental Rights and also laid down the Directive Principles of State Policy. The seeds of public sector enterprise were embedded in the Directive Principles of State Policy as inscribed in the Constitution of the country. "The state shall, in particular direct its policy towards securing that the operation of the economic system does not result in concentration of wealth and the means of production to the common determinant." [Constitution of India, Article 39(c)]. The Second Five Year Plan was a big industrial plan for the public sector; the total expenditure was two and a half times that of the first plan, investment in industries was seven times that of the first plan, with the share of public sector increasing from 44% in the first plan to 61% in the second plan.16 Emphasising the importance of public sector the plan document stated that "The public sector has to expand rapidly ... It has to play the dominant role in shaping the entire pattern of investment in the economy whether it makes the investment directly or whether these are by the private sector ..." [2nd Five Year Plan document].

The 1956 resolution further emphasised the need to accelerate the rate of economic growth and to speed up industrialisation. Opportunities had to be provided for gainful employment and improving living standards and working conditions of the people. It aimed at preventing private monopolies and concentration of economic power in different field in the hands of a few individuals.

The resolution laid down three different categories of industries according to the role the state would play in the development of each of them. This classification is similar to the earlier classification laid down in the IPR of 1948.

The first category consisted of industries like arms and ammunitions and defence equipments, atomic energy, iron and steel, heavy castings and forgings, heavy electrical plants, coal and lignite, mineral oils, important metals, telephones, aircrafts, etc. The future development of which would be the exclusive responsibility of the State.

The second category included industries like machine tools, ferro alloys and tool steels, antibiotics, fertilizers and the like, these industries would be progressively state-owned and in which state would generally take initiative and establish new undertakings but private enterprises would also supplement the efforts of the state.

The remaining industries would generally be left to the private sector though the state would also participate, if necessary.

The resolution of 1956 retained the concept of mixed economy which clearly indicated that mixed economy had come to stay as a permanent feature of Indian economy. The scope of state enterprises was also increased from six to seventeen industries. In the concurrent list of twelve industries, the state's dominant responsibility was also clearly enunciated. This resolution also succeeded in providing for the flexibility of approach.

Political and Economic changes in India (1960-1980)

Indian economy in 1960's entered a long and serious decline when rates of development started dropping. The third plan [1961-66] suffered a setback as result of the Chinese invasion in 1962., foreign exchange reserves being exhausted and the Indo-Pak war in 1965. Along with this, the droughts of 1965-67 further aggravated the mounting crisis in agricultural production. After the death of Nehru, Shastri who became the Prime Minister lacked the ideological commitment leading to short fall in plan performance.

In 1954-55, when World Bank had cautioned India against its planning strategy, Nehru had made it very clear that though aid would be accepted, but India would decide its own development policy. Later, with the establishment of Aid Consortium, the practice of informally consulting World Bank for India's development plan took roots. Though concessions were made to domestic and foreign private capital, the policy framework did not change.

But in 1966, with the balance of payment crisis, Indian planners wholly decided to accept the World Bank's advice. The rupee was drastically devalued and Ashok Mehta, the then Deputy Chairman of Planning Commission and Planning Minister, spoke about India welcoming foreign capital so that her potential could be impregnated by the financial and technological resources of the world. This resulted in a strong reaction which led to the split in the Congress, bank nationalisation, the Dutt Committee Report and the MRTP Act.

The year 1965 was marked by the termination of two wars, and of the stability of prices and exchange rate. It was followed by a double year drought, devaluation, suspension of planning, sharp decline in public interest, deceleration in industrial growth, price inflation and instability in state administration. There was clearly a swift in the forces of production, economic policies and balance of political power after 1965. Upto 1966, the Congress controlled the central government as well as every state government. However, the 1967 elections revealed a dramatic fall in public support for the Congress. Its minority in Parliament shrank significantly and it lost control of nine states where opposition's coalitions formed the government.

In May 1966, a departmental committee discredited the licensing system on the plea that it imposed a heavy work load on the government. The committee stated that the reduction in the workload could be achieved "by relaxing controls to the maximum extent possible retaining only those which are essential for the implementation of the plan and policies' and suggested that 'generally speaking, industries which do not involve the import of capital goods or of raw materials should be exempted from licensing provisions.'17

The suspension of planning and gradual delicensing of industries paved the way for enlarging the sphere of operations of big private Indian and foreign businesses. In February 1970, a new industrial Licensing Policy specified a list of eight industrial areas, constituting the 'core' and heavy investment sectors, in which the large industrial houses as well as foreign companies were allowed to invest. The bulk of these industries were from schedule A (only State Sector) and schedule B (mixed sector supposed to be progressively state-owned) of the IPR of 1956. The new policy also initiated a 'joint sector', distinct from Schedule B, which would be substantially financed and managed by the government. By 1973, the list of core sector was enlarged to nineteen and the FERA was passed to indianise the foreign company and to permit their entry into the 'core' sector. This was a clear departure from the 1956 IPR. The policy of import substitution was relegated to the background and the emphasis shifted to import led or export led growth.

Indira Gandhi who was then the Prime Minister, imposed National Emergency in June 1975 to carry out the economic reforms. This would further, help in winning the support of 'viable sectors' but it went against its 1971 election slogan of "Garibi Hatao". The handsome fiscal concessions in the budget for 1976-77, price incentives, relaxation of variety of economic controls, were, no doubt, in favour of business and propertied classes. The appeal for 20 point programme was infact directed primarily to 'viable strata' in the population although it also emphasised "improving the working of public enterprises by increased efficiency, capacity utilisation and generation of internal resources."[18]

When Janata Party came to power in 1977, attempt was made to compromise the interests of the politically influential rural notables as well as the bourgeoisie. But the new rural development strategy had strengthened the landlords and rich peasants. There was a situation of political crisis and ultimately Janata Dal collapsed.

The election manifestos of major political parties in mid term polls presented economic policies perspective which were in sharp contrast with each other. However, it was quite clear that trend was to make the economy move towards a capitalist path. The notion of mixed economy curtailing the exploitative edge of a capitalist system was believed to be false in actual practice which was quite evident from the IPR of 1980.

Industrial Policy of 1980

The objectives laid down in the Industrial Policy statement on 23rd July 1980 were optimum utilisation of installed capacity, maximising production and achieving high productivity and employment generation, correcting regional imbalances through a preferential development of industrially backward areas and promoting export oriented and import-substituted industries. Concerning the public sector the policy statement added that "the government has decided to launch a drive to revive the efficiency of public sector undertakings. Industrially undertakings will be closely examined on a unit to unit basis... wherever necessary ...priority will be accorded ... and competent management." [1980 Policy Statement].

Although the supremacy of the public sector had already been undermined but IPR of 1980 clearly implied a directional shift in favour of liberalisdation and export orientation. In March 1980, it had been announced that budgetary of support would no longer be available to PE. They were expected to find for themselves by raising resources through public departments or debentures. In line with this policy change, the price of public sector products were raised; fertilizer prices rose from 1450 per tonne in

May 1980 to Rs.2350 per tonne in July 1982, steel and cement were decontrolled, railway fares and power and postal rates were enhanced.

A more dramatic change occurred when the number of core industries in which large industrial houses and multinational were permitted was enlarged in 1982. It also opened new areas, power and oil exploration to private investments. Imports of commodities were liberalised, multinationals were allowed to increase their foreign equity and collaborate with private and public sector units and the external value of rupee was depreciated more than 20%.

So far, many committees had been set up to review the working of PSE. The ARC report had been submitted to the government in 1967. It recommended that the government should make a comprehensive and clear cut statement of the objective and obligations of PSE's. The delay in laying down the objectives of PSE was again brought forth by CPU in its report (1973) 'Role and achievement of public undertakings'. The committee again reiterated this view in 1982 in the report titled 'Public undertakings: management and control system'.

Realising the critical role assigned to the public sector in the mobilisation of resources for the Seventh Plan, the Government of India decided to set up a high level committee to review and suggest policies for improving the performance of public enterprises. The committee set up was called as the Arjun Sengupta Committee which submitted its report on December 1984. The Section IV of the report pointed out that original objective of providing maximum autonomy in the day-to-day management of public enterprises had not met and blamed the Article of Association, Bureau of Public Enterprise, government guidelines and directions etc. for it. Further, it recommended that the tenure of Chief Executive and full time directors should be five years. Section VII brought about a quick connection between financial losses and efficiency and states - "loss-making enterprises are a burden on the public exchequer and, therefore, they cannot expect the same degree of autonomy as financial viable units." But these losses could be due to several non-commercial goals that the government imposes on public enterprises, including lower input prices.19

The real emphasis on liberalisation process began under Rajiv Gandhi's government although IPR of 1980 had explicitly reduced the role of public sector to 'building pillars of infrastructure.' The New Economic Policy of 1985 stressed the role of market mechanism in resource allocation. Delicencing of twenty-five broad categories of industries took place which was justified as removing unnecessary hurdles for development. There was emphasis on export led growth, concessions to provide capital and encouragement to foreign collaborations and foreign capital.

It was probably due to these policies that the country is facing the financial crisis and has been growing politically unstable. The Ninth Lok Sabha returned the Congress into power but it did not form the government. The 'coalition government' - Janata, Left Parties and BJP took over but was in power for eleven months only. Two governments one headed by V.P.Singh and the other by Chandrasekhar fell in 1991, after which Congress Party returned to power as the single largest party.

The thrust of the liberalisdation policy involved the 'opening up' of the economy with the background of the policy being a critical condition of balance of payment and a severe budgetary deficit. The July 1991, policy statement marks the formalisation and an accentuation of an already existing trend i.e., 'the opening up of the economy'.

New Industrial Policy 1991

The new industrial policy announced on 24th July, 1991 brought about far-reaching changes from IPR of 1956, which had dominated the Indian scene for more than three and a half decades. It had also contributed to accelerated growth of the industrial sector. Although, an important fact of the economic policy shift in 1980s had been towards the discretionary role of government in industrial planning, the final shape to it was given by IPR of 1991.

Political and Economic Scene preceding the enunciation of Industrial Policy 1991:

World Bank Report gave emphasis on privatisation of public enterprises which was undertaken on a large scale by Margaret Thatcher in U.K. and Ronald Reagon in U.S.A. British Telecom, British Gas and British Airways were some which were privatised.20 How this privatisation phase gained momentum has been explained below.

The two decades from 1960 to 1980 is often referred to as the public sector boom phase. According to data compiled by IMF, in the early 1970s, thirteen countries were spending as much as 30% of their GDP in public sector and by the end of the decade, the number of countries increased to forty countries, who were spending more than 1/3rd of their GDp in the public sector. This was almost half of the ninety countries IMF studied.21 In the LDC's, the growth of public sector was characterised by the growth of the parastatal sector or state owned enterprises. It was assumed that these enterprises would take the LDC's towards the path of modernisation by generating resources for further development. But state enterprises did not succeed in keeping up these expectations. This resulted from lack of skilled man-power, political interference, misuse of financial autonomy and precedence of social objectives over commercial objectives. This naturally led to the reduction of the desirability of public sector.

At the same time, Industrialised west encountered structural obstacles in achieving full employment and satisfactory economic growth. Public sector, as it is, was not doing well and these economies further experienced problems in adjusting to the large shifts in relative prices induced by increases in oil prices. Degulation and increased market competition were seen as panacea for accelerating structural adjustment process. The subsidisation of deteriorating public sector was perceived as a constraint upon the restructuring process.22

Thus privatisation became an instrument of greater economic prosperity sweeping across the global economies regardless of their dimension, status and sharply divergent economic policy environment.

In Canada, privatisation began in 1979 at the provincial government level. But the major effort has been since 1984, when Federal government disposed off several business, primarily by sale of other countries. West Germany, Japan and France have also resorted to the privatisation process.

The dissolution and fragmentation of the Soviet Union which led to the consequential demise of socialism as doctrine and faith also contributed towards the privatisation process. For over seven decades, it had served as an alternative to capitalism of the West. But when the strongly entrenched socialist philosophy was dethroned and denounced in the Soviet Union which is now a Commonwealth of Independent States (CIS), other countries which emulated the Soviet Policy and Philosophy became totally vulnerable. Probably, it was due to this vulnerability that India too came much closer to capitalist regime of the West and Nehruvian model of economic growth which assigned a pivotal role to public sector withered and wilted.

In India, the process of liberalisation which began in 1980's gained further momentum after Congress(I)'s victory under Rajiv Gandhi's leadership. The Seventh Plan document (1985-90) clearly stated that "State Intervention in industry will undergo a quantitative change that will emphasise its development role...." [7th Plan Document]. The New Economic Policy announced in 1985 aimed to restore competition, thereby allowing the market mechanism to play a greater role in resource allocation. Though its aim was to improve efficiency and productivity but in context of the Indian background, it aggravated the balance of payment crisis.

Thus, the economic and political scene by the year 1989 was marked by the political instability at the Centre and acute financial crisis and balance of payment difficulties. This resulted in lowering the creditability of the country in the international arena. With this background, the NIP of 1991 was formulated.

available the much-needed capital goods and raw materials to the exporters who would in turn produce quality goods for exports.

Principle Aspects of the Policy:

The NIP envisaged changes in policy measures in the following areas:

(a) Foreign Investment
(b) Industrial Licensing
(c) Foreign Technology Agreement
(d) Public Sector Policy
(e) MRTP Act

Foreign Investment:

The NIP emphasises on opening its doors to foreign investment by raising the equity levels to 51% in high priority areas.23 It has already been mentioned that one of the important aims of NIP was to meet the balance of payment crisis. Thus NIP permitted automatic clearance for imports of foreign technology and capital goods in high priority industries provided the foreign exchange requirements are met out of the share of foreign equity.

Objectives of New Industrial Policy of 1991:

The policy statement essentially focused on two major issues -

(1) to meet the balance of payment crisis; and

(2) to tackle the fiscal crisis in the form of the large budget deficit.

The major objective of the policy claimed to be that of 'self-reliance' or meeting the expenditure on imports through exports as given in the policy statement:

"While the government will continue to follow the policy of self-reliance, there would be greater emphasis placed on building up our ability to pay for imports through our own foreign exchange earnings."

Apart from these, employment generation, redistribution of socio-economic disparities and removral of poverty were also stressed.

The rationale of liberalisation policy has been that a process of 'opening up' of the economy will lead to an integration with the global economy and thereby to an improvement in our export performance. The belief was that such liberalisation of controls over imports would make

According to the policy statement, the purpose of inviting foreign collaboration, freeing import of foreign technology and capital goods are:

(i) to improve technological levels

(ii) to lead to export promotion.

The policy document states:

"In view of the significant development of India's industrial economy in the last forty years, the general resilience, size and level of sophistication achieved, ... has to be more dynamic than it has been in the past, in terms of both technology and investment. Foreign investment would bring attendant advantages of technology transfer, marketing expertise ... The government will therefore welcome foreign investment which is in interest of the country's industrial development.

Manmohan Singh, adding to it, stated that, despite the steady increase in the outlay for science and technology in successive five year plans, "Indian industry continues to lag behind others in terms of technology and level of competitiveness.24 According to him, multinational would help in overcoming these inadequacies.

Industrial Licensing

According to the policy statement, apart from eighteen industries in a few strategically sensitive areas, all other industries have been delicensed and left free for entry of the private sector. The reason for the compulsory licensing in these eighteen industries are related to security and strategic concerns, social reasons, problems related to safety and over-riding environmental issues, manufacture of products of hazardous nature and articles of elitist consumption.

It is believed that delicensing would specifically be helpful to many dynamic and medium entrepreneurs and the aim of making India more competitive in the world market would also be achieved.

Foreign Technology Agreement:

The purposes of freeing imports of foreign technology and capital goods are stated in the policy statement as:

(1) to improve technological levels

(2) to lead to export promotion

The Indian Industries would get automatic approval to negotiate about technology transfer with their foreign counterparts according to their commercial judgements if this does not require expenditure of foreign exchange. It was felt that the unnecessary government interference through regulations had to be done away with as it prevented the Indian industry to become more competitive in the global world.

Public Sector Policy:

There has been considerable changes in the new policy with respect to the public sector:

(1) eight core areas relating to strategic, high technology and essential infrastructure out of seventeen indusdtries in Schedule A as laid down in IPR of 1956 are reserved for public sector. Even in the core sector, private sector will be allowed selective entry.

(2) A part of the government's share holding in the public sector would be offered on the market to mutual funds, financial investments and the general public.

(3) The sick enterprises will be referred to BIFR or some body has to be thought of, for formulation of rehabilitation package, with due regard to the interests of workers.

(4) The Board of PSE would be made more professional and given greater autonomy.

(5) There will be greater thrust on performance improvement through MOU system and to facilitate a fuller monitoring MOU will be tabled in parliament.

It was believed that these attempts would help in making PE more efficient. PE in the reserve category would become more growth oriented and dynamic with greater commitment of the government.

MRTP Act:

The policy document contained the following provisions:

(1) It raises the threshold asset limits under MRTP Act in respect of MRTP companies and dominant undertakings.

(2) It waives the requirement of prior approval of government for establishment of new undertakings, expansion, mergers, amalgamation and take over and appointment of full-time directors, broad banding for all existing and new industrial units.

(3) It is also an invitation to MNC's and foreign investors so far as the limit for foreign investment in equity has been raised to 51% to act as trading houses primarily engaged in exports and it raises the percentage of royalty payments etc.

Policy Analysis: Is it a break from Nehruvian Ideology?

The IPR of 1991 is expected to fulfill the objectives of efficiency and growth. The changes in industrial licensing policy, foreign investment, foreign technology agreements and MRTP Act would do away with the prior clearance of the government. In contrast with the 1956 policy, it envisaged changed role for government from that of control to one of providing help and guidance. This would eliminate delays and also lead to the erosion of power of politician and bureaucrat further making the material and human resources available for more productive use.

Secondly, the changes in respect of foreign investment and foreign technological agreements would attract capital, technical marketing and managerial expertise from abroad. This addition to our scarce resources would increase industrial production.

Thirdly, the closure or liquidation of rehabilitation of the sick units would free the resources for the other, productive uses.

Fourthly, methods like purposeful formulation and implementation of MOU and its monitoring professionalisation and greater autonomy was expected to improve the performance of these enterprises.

Lastly, the greater emphasis on controlling and regulating monopolistic restrictive and unfair trade practices would curb anti-competitive, oligopolistic and ineffectgively competitive markets. It would thus promote competition and through its efficiency.

In a developing country like India, it is questionable whether the IPR of 1991 will achieve the above objectives. What is widely believed is that there has been a decline of the Nehruvian ideology and hence less significance of public sector undertakings has resulted.

The purpose of planning was set forth in the Resolution setting up the Planning Commission which required the Planning Commission "to make an assessment of the material capital and human resources of the country... and investigate the possibilities of augmenting such resources as are found to be deficient in relation to the nation's requirements", but asks the Commission inter alia to "formulate a plan for the most effective and balanced utilisation of the country's resources" and "on the determination of priorities define the stages in which the plan should be carried out and propose the allocation of resources for the completion of each stage."25

It was this feature of the plan which made public sector capable of understanding 'unprofitable investment' which would further set the pattern of investments in the economy. Systems of control were also introduced to keep the private sector within the 'discipline of the plan'.

However, such function of the plans and PSE's are hardly present now. Plan may be formulated and larger and larger allocation may be restricted to PE but one cannot deny the change in substance. PSE's no longer holds the dominant position and the exclusive sectors for PE's have been opened up to private sector. The policy of self-reliance has also been compromised upon. It, thus, marks a major deviation from the Nehruvian philosophy of industrial growth, placing the public sector at the centre.26 Further, it is believed that the measures adopted in IPR of 1991 are very much keeping the approach sugested by the twin institutions dominated by the rich of the world, IMF and World Bank.

1991 proved a watershed year for economic policies in general and PE policy in particular. Before 1991, PE policy in India was unidimensional and was biased towards the status quo. The Public Sector was considered sacrosanct and most policy pronouncements were within a certain boundary conditions. However, the statement of IPR of 1991 changed all that it marked a significant departure from the traditional approach to PE policy.

Departure from Earlier Industrial Policies:

Unlike the 1956 statement, the present one neither makes a reference to the Directive Principles of State Policy laid down by the Constitution, nor to the adoption by Parliament in 1976, the inscription of socialism in the constitution as forming the basis for our polity and economy. The only reference to it is made in the context of the governments firm 'pledge' to build a modern, democratic, socialist, prosperous and forward looking India. Globalisation and competition are the only key word while balanced regional development and creation of industrial development are only cursory mention.27

More importantly, the statement seriously misinterprets the attitude of IPR of 1956 towards the public sector. It does correctly note that the 1956 resolution identified three categories of industries where Schedule A industries are "reserved for development in the public sector", Schedule B indusdtries "are those that would be permitted for development through private enterprise with or without state participation." But the twelve major industries in Schedule B included - "industries which will be progressively state-owned and in which state will therefore generally take the initiative in establishing new undertakings, but in which private enterprises will also be expected to supplement the efforts of the state" [IPR of 1956, para 7].

The objectives of NIP have already been stated before. But it is believed that NIP might go counter to these objectives. Foreign investment and technological agreements included automatic approval for direct foreign equity investment upto 51% for more than fifty industries. This includes some of the key and strategic industries like metallurgical industries, boilers and steam generating plants etc. which had earlier been listed in Schedule A and B. The same industries which Nehru and his counterparts had believed should be "because of socialist pattern of societies as our national objective, as well as the need for planned and rapid development..." [1956, IPR, para 6] in the public sector will now be handed to MNC's. This not only means moving away from the Nehruvian policy of preventing the concentration of economic power in few hands but it can be dangerous and tantamount to our economic sovereignty. There is no doubt about the fact that they would create competition for domestic producers who will not be able to withstand it. The organised or industrial sector would suffer a setback as it has already been under recession.

Moreover, whether the existing multinationals in India have succeeded in keeping India in the forefront of technology development to the extent they were themselves doing in other parts of the world, and specially in their home countries can be questioned. To take an example, Philips, has been working in India since before independence, but it was the initiative of the smaller Indian competitors who introduced newly developed technology like transistors. The idea that we always need to import and adopt 'up-to-date technology' and that this technology is prevalent only in richer countries is not true. While science can be said to be universal, technologty needs to be adapted. Thus for appropriate utilisation of foreign technology, certain infrastructural facilities have to be introduced. Substantial investment in research and development in the specialised industries should be made and skilled manpower should also be available to work with imported technology. Guidelines are required relating to imports of technology and capital goods in industry to export finished products. Apart from this, many of the countries would be reluctant to permit unrestricted export of technology specially the use of up-to-date technology even by their subsidiaries unless they are located ion politically 'safe' countries. Furthermore, considering the Indian situation it is doubtful whether these multinationals would help in solving the problem of poverty, unemployment, reducing socio-economic disparity and regional inequalities.

It was believed that abolition of discretionary import incensing would facilitate import of those capital goods that were necessary for our heavy and basic industries and where indigenous capabilities were not sufficiently developed. This would have paved the way for a sustainable and self-reliant economic growth. Instead, it was observed that there was an inflow of consumer goods which catered to the needs of the handful of affluent urban householders.

Besides, the reduction in the tariff rates has entailed a revenue loss of thousand of crores of rupees. The shortfall in our indirect tax collections as at the end of December 1993 on account of custom duty collections is estimated at about Rs.3000 crores. Further, it has also enabled the developed countries, facing recession to dump their goods in Indian market. The adverse impact of this has been felt by diverse sectors of Indian industry such as metal working, machinery manufacture, electrical engineering and heavy chemicals. The indigenous enterpreneurs facing unequal competition from foreign companies that have flooded our home market, have been compelled to close down. There is a shrinkage in demand for Indian goods as foreign goods are relatively cheaper. The recession in the Indian capital goods industry is deepening. It registered a negative growth rate of 10.4% during the first six months of 1993-94 as compared to the same period of the previous year. The fall in production was more predominant in September 1993 with a minus 13.3% growth over production in September 1992.28

The abolition of MRTP can be justified on ground that it contributed little to controlling concentration in industry but it has ignored the problem of concentration of capital. In the absence of any kind of regulations, monopolistic forces are bound to be strengthened as no specific guideline have been mentioned in IPR of 1991 to the form of controls to be adopted.

One cannot deny the need for substantial debureaucratisation but it would be dangerous to substitute marketisation for debureaucratisation. Liberalisers often quote the example of South Korea and Japan but they seem to forget that the success of these countries was based on very substantial state control, intervention and protectionism. Even Western Capitalist countries would not permit the free entry of foreign capital to this extent. Considering our Indian situation, there are large areas where state intervention is still required. Of late, in India, employment growth has slackened. The NIP makes many jobs in government departments redundant and these workers cannot be left uncared for.

Considering the effects which the NIP might have, it betrays the goal of the national movement. It is a design to bring about fundamental changes in the country's economic and thus political framework which would only increase the dependence of India on the richer economies of the world. It is questionable whether a developiong country like India can afford the severe consequences of such fundamental changes.

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CHAPTER - II

BHEL : A PROFILE

C H A P T E R - II

BHEL : A PROFILE

The dawn of India's independence in 1947 brought in its wake an era of planned development of all the key sectors of economy. The industrial base in the country was minimal and technical skills were of a low level. Rapid industrialisation through development of necessary sources of infrastructure as other inputs was a priority for the policy planners. Policy planners had also realised that production of commercial energy was of paramount importance for economic development and overall growth for any developing country. A large scale power development programme required an adequate indigenous manufacturing base within the country. It was accordingly decided to establish indigenous manufacture of sophisticated power plant equipment which led to the emergence of BHEL.

BHEL forms an integral part of the developmental process of the country. It serves the core sectors of the national economy such as power, industry, transportation, telecommunication defence etc. [Appendix-A]. At present, nearly 1% of the GNP of India is contributed by the turnover of BHEL 1. In less than three decades, BHEL has taken the country from a position of total dependence on overseas sources to complete self-reliance in the internationally competitive field of power equipment manufacture.

The company has established its capacity for the design, manufacture, erection, commissioning and after-sales service of the entire range of equipment required for operation, transmissions and utilisation of electrical power. It is one of the very few organisations in the world which supply such a wide spectrum of products, systems and services from one corporate entity. The company is the largest engineering organisation in the country, having collaborative tie-ups with reputed international corporations and also figures in the FORTUNE 500 list of largest corporations outside USA.2 In fact, World Bank Report has also commended on BHEL's planning and management systems. According to the Report, BHEL is "one of the most efficient enterprise in the Industrial sectors at par with international standards of efficiency."3

Since 1969-70, when BHEL had commissioned thermal and hydel power generating equipments, BHEL has, so far, installed 500 thermal, hydel, nuclear and gas units at different locations spread all over India. With corporate headquarters in New Delhi, the company has 13 manufacturing plants, 8 service centres, 4 power sector regional centres, over 100 project sites spread all over India and even abroad, besides a large number of service centres including a Corporate Research and Development complex at Hyderabad.,4

In 1993-94, the company recorded a sales turnover of Rs. 3554 crores and a pre-tax profit of Rs.317 crores maintaining the trend of making profits for past 22 years.

The Beginning:

Industrial Policy of 1948 had emphasised the need for promoting and encouraging rapid industrialisation of the country. It clearly stated that the generation of power should be the concern of the State. Subsequently, the Advisory Planning Board of Government of India recommended in February 1947 the establishment of a heavy electrical equipment factory in the public sector.

The First Plan had total provision of Rs. 94 crore for the establishment of large scale industries in the public sector as against an estimated programme of new investment in the private sector of Rs. 233 crores. However, in the Second Plan, the major point of departure was the precedence accorded to the public sector in industrial and mining development. The provision of Rs.690 crores for large scale industrial and mining development and the public sector was a shade higher than the total investment of Rs. 575 crores in the private sector. The second major departure was with regard to the composition of investment in the industrial sector. Practically the entire proposed outlay of Rs. 690 crores was for large-scale industries such as iron and steel, coal, fertilizer, heavy engineering and heavy electrical equipment.5

It was on 29 August 1956, when the Heavy Electricals Pvt. Ltd. was incorporated at Bhopal in collaboration with U.K. to undertake manufacture of Electrical Equipment required for generation, transmission and utilisation of electric power. Subsequently, three more plants were set up at Hardwar, Hyderabad and Tiruchirapalli.

BHEL has undergone a period of dynamic change in various facets of its structure, operations and business profits. The evolution of BHEL can be traced over three distinct phases, which may be termed as the decades of the 1960's, 1970's and 1980's.

During these decades, factors like increasing uncertainities and risk in the environment, rapid changes in technology, competitive pressures and social responsibilities exerted increasing pressures on organisations. The financial oriented and short term budget based planning practised in most countries gave way to forecast based predictive systems and there was emphasis on creating a future through strategic management. In BHEL too, it was organised planning that enabled the company to manage the changes effectively through anticipation, preparation and action. The strategy which was initially top-down gave way to a two-way system. The involvement of line managers in the planning process ensured a bottom-up approach over the top-down guidance of the higher level of management and helped in better formulation of strategy.

Phase I (1960-70):

During the early years of BHEL, attempts were being made to improve the low level of domestic technical base and skills. There was non-availability of contemporary technological know how and it was only Soviet Union and East European Socialist countries who were willing to provide assistance. Thus, emphasis was on nation-building activities. It was necessary that resources and capacities to manufacture and supply power equipment to marched the country's power development plans.

The Third Plan emphasised that Industry had a leading role in securing rapid economic advance both Agriculture and Industry were to be regarded as closely linked parts of the same process of development. Industry was to be regarded as part of the comprehensive design of development which ultimately linked the industrial and rural economy. The economy of the large-scale and of small scale units and the economy of the major industrial centres as well as of smaller towns and villages bringing them into a close relationship with the another, thus assuring a high degree of mobility and economic, integration within the economy as a whole. [3rd Plan Document].

It was realised for the first time that the operations of industries depended not only on the needs of the people or markets for their products but also on the supply of raw materials, power, fuel and facilities for transport. The Plan also noted, that power and fuel were likely to be the inhibiting factors in the first half of the third plan.

Strategies and steps were laid down by BHEL to achieve the organisation priorities. Planning groups were positioned in each division to ensure that construction schedules were met. Technically qualified engineers were recruited who would help in proper execution of the projects to the undertaken. In order to develop skilled technical personnel, training schools were set up; to impart basic technical skills for various trades to raw recruits. Arrangement was also made with collaborations to depute large number of experts in various fields for periods upto two years at each division. Finally, to develop reliable sources of supply, local enterpreneurs were encouraged to set up ancillary units for manufacturing specialized components.

The manufacturing capability initially required to be built up by BHEL was established as per plan. This was the learning phase in which the organisation started with less-complex products like non-rotating equipment and electrical motors and power generating sets of lower capacity.

Phase II (1971-90):

By now, BHEL had been all set to take up; newer challenges in energy as well as other emerging sectors of national economy viz. Industry and Transportation. To meet the increasing needs of the Indian Power System, BHEL systematically upgraded its facilities to manufacture thermal generating sets of capacities ranging from 30-210 MW and transmission products upto 400 KV rating. The organisation was slowly but steadily graduating from operations/production management phase to strategic planning and management phase. By 1973-74, the outturn had grown to Rs.2300. BHEL had become a team of 45,000 highly trained and widely experienced technicians and engineers.6 The strengths and resources of the company had to be carefully developed to make the company more resp;onsive and agits in responding to the turbulent business environment ahead.

High Inflation had resulted following oil price shocks and oil exploration was identified as a priority sector. Declining trend in ceapacity utilisation in power equipment manufacturing industry was a world-wide phenomena. The prices of wide critical raw materials had also increased due to shortages. However, business opportunities were growing in the middle east and there was increasing willingness present on part of western nations to share technology.

This was a phase when the organisation had to prepare itself to anticipate, and quickly respond to the fast changing and more and more complex market needs. BHEL realigned its objectives and laid down the following objectives.for this phase7

(a) Orient business from equipment sales to system sales;

(b) Restrengthening of the engineering base.

(c) Built up multi pronged R&D capabilities;

(d Put the organisation on the path of internationalization

(e) Supply equipment of contemporary technology to its customers.

The need for establishing a formal corporate planning system in the company was acutely felt. This resulted from increasing uncertainities, widening of market opportunities and the internal desire and commitments to deliver the best to the society. This stimulated the organisation to look ahead strategically in the future. The planning had thus shifted from short and medium term planning (Ist phase) to long term planning where the emphasis was on identifying strategic growth alternatives/opportunities and consolidation of internal strengths and analysis of weaknesses. Finally, the need to sharpen the technological edge of the organisation was also recognised.

Various system and manuals were introduced in order to streamline the internal operations and analyse and monitor them closely and to take timely corrective actions. Those systems and procedures such as Revenue Budgeting Exercise made its possible for the planning groups and the top management to concentrate on analysis of the past trends and present performance. This should be undertaken by using the reports and information generated through these systems as well as concentrate the energies to look into future trends/prospects and opportunities.

It was in 1974 that BHEL prepared its Corporate Plan. The main strategies and organization focus as identified in the 1974 Corporate Plan were:8

(a) Functional Orientation in the organisation - engtineering reorganisation by positioning of Engineering Development Managers, formation of central marketing divisions for domestic as well as export sales and emphasis on human resource development;

(b) Rationalisation and standardization of products - Multidisciplinary Product/Technical Committees were set up for different products to integrate organisational needs, Designation of major units as lead units viz. Hardwar for Large Steam Turbins and Generation. Bhopal for HYDRO/Transmission and Transportation and Hyderabad for Industrial products.

(c) Development of basic R&D facilities settilng up of a Corporate R&D complex at Hyderabad, Involvement of R&D in providing back up in design, manufacturing erection, commissioning, trouble shooting and in the transfer of know-how and know-why from collaborators. Settiong up of Engineering systems division like consultancy Service Division, Industrial System Division and Project Engineering Division.

(d) Vertical Integration - development of auxillaries, viz. valves, fans, mills etc. and setting up of Central Foundry Forge Plant, Transformer Plant and Seamless Steel Tubes Plant.

(e) Business Orientation towards sales and consultancy - Construction and Com missioning of power stations on turnkey basis, strengthening of erection and commissioning capabilities, erectioin of field engineering services and field support services; Industrial Systems group and Transportation Systems Group.

(f) Strengthen Customers Services - Setting up of spares and services Group, emphasis on Spares Manufacturing, introduction of spare-manual.

(g) Thrust to exports - Setting up of Export Division.

(h) Development/Commercialization of non-conventional energy systems.

The period till 1980's saw the implementation of these strategies and action plans with a high degree of determination, commitment and dedication at all levels. This was made possible by introduction of various integrating devices and systems such as Executive Com mittee, Functional Committees and Product Committees as also performance budget in revenue and capital areas. At major centres, computer and information processing facilities were also introduced.

The Corporate Quality Assurance Group were formed to give thrust to high quality standards in every job being executed by an individual group or division of BHEL. Parallely a Management Development Institute was also set up to provide periodical inputs to the personnel on the latest developments in various related fields of interests and their effects/benefits. This gave an opportunity to the company personnel to keep themselves professionally competitive and aware and responsive to the environmental needs.

As result of these efforts, by 1978-79, the outturn increased to Rs.6300 m.9 BHEL made significant advances in coal based research programme and entry was also made in electronics devices and controls area. Spectacular achievements were also made in the fields of exports when successive orders for supply of power boilers to Malaysia, a turnkey order for establishing thermal power plant at Tripoli-Libya and another turnkey order for supply of power equipment to Saudi Arabia were bagged almost simultaneously.

Third Phase (1980 onwards):

This phase observed an environment highly turbulent added with technological discontinuties. There was persistance of inflation and low growth of economy. Investments declined in middle east and there was global recession. There was increasing competition from within and outside the country and higher level of service was demanded by the customers.

In the past two decades, the organisation had developed strengths in engineering and manufacturing areas to take up production and supply of equipments of any complexity. It consisted of over 68000 qualified experienced and motivated engineers along with latest technologies which could be compared to the best in the world. Continuoius profits for past ten years strengthened the financial health of the Company and demonstrated its eficiency in financial management. Under the prevailing situation, the following main objectives were laid down by the country.10

(a) Re-orient the Company for the 1980's

(b) Maintain growth and profitability

(c) Strengthen internal resource position.

(d) Higher customer satisfaction through improved performance of products.

(e) Strengthen the customer service operations.

The gigantic tasks of achieving these objectives in the prevailing difficult business environment necessitated the formulation of the Second Corporate Plan. The main strategies underlined here were.11

(a) Effective market orientation through Business sector concept. Formation of Power Sector for Power and related equipment business and Indusdtry Sector for indusdtrial and transportation related equipment.

(b) Identification of potential growth areas - large rating power equipment, Nuclear Power Equipment, Non-Conventional Energy Systems, Dry Type Transformers, Battery Powered Road Vehicles, Electric Trolley Buses etc.

(c) Supply of products to higher quality standards - Formation of Corporate Quality Assurance with representative groups at Divisions Quality surveillance by customer, outside agencies as also by Corporate groups.

(d) Efficient and Effective service after sales - Formation of a separate Service after Sales Division.

(e) Strong Business Market Interface - Strengthening the mechanism of Product Committees by making them oversee product plans, introduction of Business Committees to observe and analyse the business trends and emerging opportunities and suggest suitable corrective strategic measures

(f) Increased competitiveness of products - Orientation of entire business operation on product basis through introduction of Product Manager concept.

Thus plan was a combinatioin of top-down and bottom-up placing challenge for the individuals at all the levels. These efforts started to bear results. By mid-1980's the company which had just made its debut in Power Sector in 1967-68 by supplying first indigenously built 30 MW TG sets to Basin Bridge Power Station started supplying 500 MW thermal power equipment - TG sets and Boiler auxillaries. It has developed the capability to supply thermal power generating equipment upto 1000 MW, based on the technology comparable to the best in the world. It has a total annual production capacity of 7000 MW of power equipment. BHEL power generating sets already account for nearly two-third of the overall installed capacity in India.12

Considering its contribution to Industry sector (Refer to Appendix A for sectorwise Turnover). BHEL has supplied major capital equipment and systems to important core industries like cement, fertilizers, refineries, petrochemicals, steel, paper, mining and telecommunications. BHEL has been making significant contribution towards development of Oil and Gas industry in the country, both for on shore and off-shore. It has been regularly supplying on shore drilling rigs, x-mas tree valves and well heads to ONGC and Oil India.

BHEL's contribution in the transportation sector has been marked by substantial growth. Today, over 70% of Indian Railway, one of the largest railway networks in the world is equipped with traction equipment built by BHEL. It is also the leading locomotive manufacture in the country supplying of electric and diesal electric locomotive to Indian Railways, cement, steel and fertilizer plants, thermal power station, ports and other medium and large industries. Underground metro-rail system at Calcutta, electric multiple unit service at Bombay, Calcutta, Madras and Delhi operate on drives and controls supplied by BHEL. To contain air pollution and conserve mineral oil resources, electrically operated urban transportation systems are being promoted. Battery powered road vehicles and locomotives are in operation in various cities. In the future, BHEL hopes to introduce electric trolley buses and mass rapid transport systems to meet the growing transportation needs of urban centres. Its foray into the Aviation Sector for manufacture of 2-seator aircraft for applications like flying training, short hauls, surveillance and photography is also significant.

BHEL's engineering and R&D efforts are focussed on improving the quality of its product, upgrading the existing technologies, accelerating indigenisation and developing new products for diversification. A highly talented and experienced team of engineers and scientists are engaged in

R&D activities at Corporate R&D Division. Hyderabad as well as all manufacturing units. They have close interaction with other national research laboratories and academic institutions. The R&D efforts have already yielded several significant results in terms of better products and improved technologies. The annual R&D expenditure of BHEL exceeds 2% of the turnover which has sharpened the technological edge of the organisation tremendously. BHEL has also set up several national level research institutions with UNDP assistance. These include Welding Research Institute at Tiruchy, Occupational Health Service Centre at Tiruchy. Pollution Control Research Institute at Hardwar, Centre for development of Electric Transportation at Bhopal and Ceramic Technology Institute at Bangalore.

BHEL's achievement in the export arena are equally creditable. BHEL has exported a variety of its products, system and services, ranging from individual products to turnkey power plants to about 45 developed and developing countries viz. USA, U.K., West Germany, USSR, New Zealand, Indonesia, Thailand, Malaysia, etc. A distinct feature of BHEL's success has been its recognition in the world market as renovation/services. maintenance expert. Apart from BHEL hydro sets already in operation, 80% of boilers installed in

Malaysia are of BHEL's make. It further made a breakthrough in the European market by supplying 2 TG sets of 60 MW rating to both Malta and Cyprus. Among other items, BHEL also exports insulators, transformers valves and services for renovation, maintenance and operation of power stations. The export turnover has increased from Rs.276 crores in 1988-89 to Rs.845 crores in 1993-94. The company's sustained efforts in many target markets in the Mediterranean, Africa, Middle East, South East Asia have provided it with a global presence.

The BHEL of 1980's became a market oriented organisation 'with best service to the customer' as the main focus. With this regard, it is significant to note that the importance attached to Quality Assurance helped the company in achieving continued growth in the face of stiff competition both from within the country and multinational giants from abroad. Quality of BHEL products is evidenced through state of-the-art design and technology adapted from world renowned collaborators. Emphasis is given to the highest standards of quality at every stage of operation through implementation of Quality Management Systems and Procedures, in line with International Standards and Practices. BHEL equipment also undergoes third Party inspection by customer consultant or their authorised agent.

The high quality of BHEL products is reflected in their performance during 1993-94 when BHEL supplied thermal sets achieved a plant load factor [PLF]. of 62.8% higher by 1.8% than the average PLF of 61%. Operating availability of BHEL sets improved to 77% from 71.6% last year. Further, 20 power stations equipped with BHEL sets were among the 23 power stations that bagged the productivity award for 1992-93 instituted by the Department of Power14. BHEL is the first public sector undertaking to have received quality system certification as per ISO 9001 for its Trichy Plant.

The commitment towards complete customer satisfaction leads BHEL to lay much emphasis on after sales service. It has eight organised service centres operating from different parts of the country. The strategic priority that the organisation has placed on providing effective service after sales and the spare parts supply to domestic as well as foreign customers can be gauged from the fact that nearly 12% of the company's annual turnover during the last few years was on this account.15

The achievements underlined above could not have been possible without the highly trained and motivated workforce of BHEL. Overall manpower strength in the year 1993-94 was around 70,500 of these, about 34,500 employees attended various training programmes and 38 employees were sent abroad for training. In addition, 3100 apprentices were provided training under the Apprentices Act. Fresh induction was restricted to professional required in critical areas and the trend of reduction of manpower was maintained. During the calender year on All-India basis, 36.09% of posts were filled up by SC and ST candidates against the prescribed percentage of 22.5%, thereby bringing the proportion of SC and ST employees in the total manpower to 15.87% and 2.30% respectively.16

Further, BHEL has also continued to support ancillaries and Small Scale Industries and affected purchases worth Rs.2290 millions from more than 1500 small scale units.17

BHEL has served society through creation of infrastructure for industrial development of the country, creation of direct and indirect job potential, technological advancement through R&D, setting up aid to educational institutions, hospitals, townships etc. The Social accounts for the year ending 31st March 1994 highlight this aspect. The total benefits to employees, community and general public had been Rs.25030 million in 1993-94 compared to Rs.26289 million in 1992-93. Reduction in the rates of custom and excise duties during 1993-94 decreased BHEL's contribution to exchequer which is one of the constituents of social benefit to the general Public. Further, this decrease also meant reduced prices for the buyers of BHEL equipment as these are normally passed on to the customers.18

Changed Business Environment:

India embarked on a programme of liberalisation sionce mid-1991, which has witnessed gradual relaxation of controls and procedures resulting in the opening up of the economy, bringing in more competition for industry, both in the public and private sectors. In this scenario, the fortunes of any business enterprise would solely depend upon its ability to meet market needs in respect of price, delivery, quality, after sales service etc. with speed and efficiency, irrespective of being a PSE or a private sector enterprises. Only those enterprises who can deliver the most cost effective, high performance, reliable products/systems/service would be able to survive in the present business environment.

International Competitiveness is becoming crucial to the survival and growth of a company like BHEL, even in the domesdtic market Over the last five years, nearly 70% of

BHEL's turnover has been achieved in competition with either domestic or international suppliers. However, during the decade of 1990's the company had to gear itself for even greater international competition. Rising to these challenges, BHEL has consolidated its multi-disciplinary capabilities to continuously assess the changing trends of the environment and anticipate its future opportunities and threats. Once this has been assessed, BHEL hopes that business operation can be realigned and developmental activities and suitable strategies can be chalked out to infuse highest standards in its products, systems and services.

Investment plans have been focussed towards revitalizing its manufacturing facilities by modernization replacement etc. to gain higher competitive advantage. From a manufacturing company of 1960's engineering company of 1970's, marketing company of 1980's, BHEL, today, is set out to become a company thriving on innovation by the end of this century.

The technology tie ups of BHEL with world leaders, the export of products, services and projects has given the company a good global exposure. However, its relationship with its global partners has undergone a qualitative change as from the stage of only technology licensing, the company is today seeking various kinds of strategic alliances in the form of equity participation, joint bidding, consortium approach etc. These tie-ups are expected to provide complimentarily to BHEL's strengths in terms of technology, market, product and foreign investment.

The present business environment offers BHEL both opportunities as well as challenges for which the company has initiated a number of steps.

To ensure continuous growth, re-orientation of business approach is necessary. This approach is being pursued to obtain business from private sector power projects. As financial capability has become a major marketing tool in securing business, BHEL has already commenced the process of setting up a Financial Service Company to start offering sales and financing. Experience in setting up power plants on turnkey basis in India and abroad has provided BHEL with engineering, procurement, construction and project management skills. These are planned to be further exploited for obtaining such FPC contracts or parts thereof in the emerging private sector power generation market.

The company has initiated a number of steps for tapping this market potential by way of taking up plant performance improvement (PPI) programmes, life extension studies etc. with selected customers, in addition to traditional spares and services support extended to all customers. The companies focus would be strengthen the service after sales, project management and engineering areas. Diversification efforts have also been taken to enhance BHEL's presence in sectors other than power such as Defence, Communications and Transportations. New products such as gas turbines, AC locos, waste heat boilers, FPABX ceralin etc. have been introduced as result of these efforts. Plans are afoot to launch a number of other new products also. Thus to exploit capacity to its full utilisation, three pronged strategy has been adopted by the company - vigorous export programmes, retrofitting/revamping of old thermal plants and diversification.

The Secretary, Department of Heavy Industry stated that by the end of the 8th Plan (1992-97), 45 public sector undertakings under this department would make profit to the extent of Rs.572 crores. During the Eight Plan, a total investment of Rs.2771 crores with the budgetary support of Rs.385 crores would be made for these enterprises. Incidently, in the Seventh Plan, a total investment of Rs.1845 crores was made with the budgetary support of

Rs.1072 crores in the PES of the department of Heavy Industry. The Secretary disclosed that the strategy underlying the investment proposals of these PE for the Eighth Plan aimed at reviving the loss making units, maintaining/improving the profitability of the profit making units to generate sufficient surplus to be ploughed back for productivity improvement and technology upgradation.19

It needs to be noted here that the low budgetary support by the government would make it more difficult for BHEL to face international competition. For, the global power plant equipment industry is grossly underutilised, leading to severe international competition aggravated further by offers of financial assistance from suppliers, backed by their respective governments. Furthermore, deliveries of products like boilers, transformers, turbines and other electrical equipment are being made on credit by BHEL to the State Electricity Boards. These debts have been accumulating at a rapid pace over the years. There has been non-payment of bills worth a staggering Rs.10 billion by various State Electricity Boards. there has also been a steady thinning of orders for both, thermal and hydel power equipment. The past five years have seen the orders for its thermal power equipment fall by over two-third from 12,065

MW in 1988 to 4,91 MW in 1993. In the same period, BHEL's hydel power equipment order have fallen from 1978 MW to 1300 MW.20 Of the 31000 MW of power that is to be created in the Eighth Plan, BHEL has so far bagged a mere 29% share, as against a share of 80% and more during the last 15 years.

As mentioned earlier, one of the strategy adopted by BHEL has been to set up its financial services subsidiary to boost up its order book positions in the long run. If BHEL acquires the ability to match the financial packages being offered by its competitors from abroad, it is adequately placed to match them on the technological basis. But how long will it be before BHEL is able to match its rivals financially. This would take time for it involves typing up possibly with both Indian and foreign financial institutions and working out who will contribute how much of the initial capital of the new company and on what terms. Even if this is achieved, it is not realistic to express that the new firm will be able to mobilise orders for BHEL in a big way immediately. Even if it does, it is questionable whether it will be able to offer sufficiently large sums of money as credit and on terms which will match those offered by other suppliers of equipment to potential customers.

One of the most important goals of BHEL's first corporate plan was "to develop R&D activities in such a way as to reduce dependence on foreign technologies". But P.Ramamurti in his book 'Stop BHEL's Dangerous Truck with Siemens' has explained how BHEL moved away from this goal.

BHEL, in its growth, had to face difficulties typical of any heavy industry operating in an underdeveloped country. But, instead of paying attention to these difficulties, the top management sought the easy way of indiscriminate import of technology rather than relying on and encouraging the creativity of their undoubtedly talented engineers and technical personnel. A Proliferation of collaboration agreements extended over longer periods of time and covering production in which certain levels of expertise has already been attained. The new generation of collaborations were entirely with western multinationals. In 1971, BHEL entered into a technical collaboration with Combustion Engineering Inc (CE), a leading boiler manufacturer based in the U.S. Among the other collaborations agreements entered into thereafter were with West Germany, Sweden, France and U.S.A. Thus the noble objective of reducing dependence on foreign technical collaboration, proudly proclaimed in the first corporate plan was given a quietus. This was also observed when an agreement was signed with Kraftwerke Union (KWU), a wholly owned subsidiary of Siemens in 1976. In 1973, the Union Ministry for Industrial Development (Heavy Industries) recommended the development of 500 MW sets indigenously. An expert committee consisting of R&D engineers within BHEL was set up to look into the matter. The committee proposed two designs for the manufacture of generators, one from Hyderabad and the other from Hardwar. The committee confidently concluded that BHEL could design the required generator based on its own expercience and turbine technology alone should be imported. But the proposals of manufacture of generator from Hyderabad was not seriously considered. Finally, in 1974, the Chairman overrode the committee's recommendations to the utter dismay and frustrations of the R&D engineers and decided both turbine and generator technology should be imported. According to Mr. V. Krishnamurthy, the Chairman of BHEL (June 5th, 1974).

"it will be some time before these laboratories start functioning and generate data to support our own development work for larger capacity (steam turbine sets)."21

Thus it was not denied that BHEL engineers could develop larger capacity turbines. With the will and firm commitment to develop own technology, it would not have been difficult to accelerate the functioning of the laboratories. Instead, the management opted for imported technology. This may also result in demoralisdation and frustration, among scientists. It has been observed that many of the scientists have resigned their jobs and secured employment in advanced countries. Their talents are recognised and used by multinationals to their advantage but cannot be used for the advancement of our own country.

The business environment for BHEL has further changed with the import liberalisation in 1991-92. The prospective importers of power plant were earlier required to seek permission from the government for issue of global tender notice and then apply for import licence in case a foreign offer was found to be most competitive. But in mid-1992, the government completely delicensed the manufacture of entire range of power generation equipment thereby paving the way for indigenous manufacture of equipment by multinationals. The representation of multinationals said that they would liberally finance the supply of equipment from abroad as well as from their proposed local factories.

It was believed that international competition would increase efficiency, improve quality, bring down prices and boost up production and exports. But the point to ponder is whether industries - in public or private sector are in a position to compete with multinationals? Many of the economists believe that the small units will not be able to face a cut throat competition. This is a clear departure from the constitutional Directive that the material resources should be distributed, as best to serve the common man.' Instead of coordinating action by the various divisions of the undertaking and concentrating on rectification of these defects and prefecting the equipment, the management has been running after export market. Around 25% of its personnel is being concentrated on equipment for the exports which forms only 5% of its production. The question naturally arises, why should BHEL run after export markets when the country is so short of power and all the equipment which BHEL can make will not satisfy the needs of our power projects and it has to extend production to cater to the needs of the country.,

BHEL is a dominant force and the pace setter in our country's electrical industry. Any policy concerning BHEL would have its impact not only on the industry but on the economy as a whole. In the present scenario, BHEL has been facing certain problems (as discussed in this chapter) which cannot be overlooked by our policy makers. These problems are not limited to BHEL alone but extend to the public sector as a whole. Although, BHEL has adopted strategies to overcome these environment constraints and to exploit the business opportunities but how successful they would actually be is yet to be seen.

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C H A P T E R - III

PUBLIC ENTERPRISES AND THE PARLIAMENTARY COMMITTEES

C H A P T E R - III

PUBLIC ENTERPRISES AND THE PARLIAMENTARY COMMITTEES

This chapter attempts to analyse the recommendations of the Parliamentary Committee (PC) vis-a-vis PE, in particular with BHEL. This aspect assumes importance in view of the increasing importance of the role of the PC in relation to PE. The effectiveness of the recommendations of PC on the government policy vis-a-vis PE would also be evaluated.

The Public Sector has a historic growth in India since the commencement of planning. During the British period, it was confined to sectors like Railways, Power, Communication and a few non-departmental Undertakings such an Ordinance factories and Post and Telegraph. After independence, it has been growing both in absolute as well as in relative terms.

It is inherent in public enterprise organisation that certain major aspects of its working and growth ought to be brought under a system of public control. The channels of control vary with the organisational form of the enterprise; even from one PE to another, according to its socio-economic role. Broadly, the control over PE can take three forms :

(i) Control by Parliament and Parliamentary Committees, (ii) Control by Audit and (iii) Control by Government ministerial control.

Control over state enterprises was essential in order to ensure that the objectives for which they were created were being achieved. Parliament, being the nation's trustee had the ultimate right to control these PE. PE were established with public money and Parliament being, the representative of the tax payers, the Parliament had the right to control these enterprises.

PE were set up not merely to fulfil commercial objectives but also certain social obligations which necessitated accountability to public in terms of achievement of such obligations and satisfaction of larger public interest. As Prof. Robson says it has been long since recognised that Parliament has the right to discuss and determine matters of major policy concerning such industries, leaving a large degree of independence to the 'management' in matters of current administrative which is 'vital to their efficiency as commercial undertakings'. Further, the industrial and commercial enterprises are a part of the national plan and if the plan objectives of the national are to be achieved, Parliament has to ensure that the targets of these enterprises are achieved according to the Plan.

The officials who controlled and managed these enterprises had no personal or financial state in the enterprise which is also a reason for parliamentary control over the operations of PE. In case of monopoly and semi-monopoly too, parliamentary control was essential to ensure that market power was used in public interest. Above all, the possibility of political interference and favourtism was also present. Thus it became important to make them accountable to the Parliament through instruments of Parliamentary control. This would lead to constant review in terms of achievements of their objectives and obligations and finally ensure efficient working of PE.

Parliamentary control through PC here includes the Public Accounts Committee (PAC), the Estimate Committee (EC) and the Committee on Public Undertakings (CPU). However, it is important to mention that as the CPU had taken over the functions of the EC and PAC as far as public undertakings are concerned, this study mainly emphasizes on the recommendations of CPU. The analysis of the impact of the Committee's recommendations is entirely based on the Action

Taken Reports of the Committees. The government's policy decisions vis-a-vis PE as result of the recommendations of the CPU are considered to be its impact on PE. For this purpose, the compedium brought about by Standing Conference of Public Enterprises (SCOPE) in association with Bureau of Public Enterprises (BPE) in 1979 entitled 'Government Policy for the Management of PE' has also been very useful. But before the recommendations of PC are analysed, an attempt would be made to briefly trace the Genesis and functions of the PAC, the EC and the CPU.

Public Accounts Committee - Genesis and Functions:

Of the three financial committees of Lok Sabha, the PAC, the EC and the CPU, the PAC is the oldest. The PAC has been playing a very important role in enforcing accountability over PU before the formation of the EC and CPU. It was set up in 1921 in the wake of Montague-Chelmsford Reforms. After independence, it was constituted from 1950 as a PC with a non-official Chairman appointed by the Speaker. It was constituted from members, drawn from both Houses of Parliament. At present, it consists of 22 members - 15 from the Lok Sabha and 7 from the Rajya Sabha. The term of the members is one year.

Function:

Since 1952, the EC and PAC are working as the two Finance Committees of the House whose scope of functions, method of appointment and other ancillary matters have been clearly defined in the Rules of Procedure and Conduct of Business in the Lok Sabha.

The functions of the PAC are enshrined in Rule 308 of the Procedure and conduct of Business in Lok Sabha. The main function of the Committee is to scrutinize the Appropriation accounts of the government of India and the reports of the Comptroller and Auditor General (C&AG). His reports include comments not only on defective budgetary but also on wasteful and migatory expenditure and efficiency. Thus, the most significant part of the functions of the Committee is that the Committee's scrutiny extends beyond the formality of expenditure, to its 'wisdom, faithfulness and economy.'[2] However, it is not concerned with questions of policy as such. But in case the committee finds that a particular policy is not achieving a desired results or is leading to waste, it can report to the House that a change in policy is required.

According to Rule 308(2) of the Rules of Procedure and Conduct of Business in the Lok Sabha, it shall be the duty of the Committee to satisfy itself.[3]

(a) that the moneys shown in the accounts as having been disbursed were legally available for and applicable to, the service or purpose to which they have been applied or charged;

(b) that the expenditure conforms to the authority which governs it; and

(c) that every re-appropriation has been made in this behalf under rules framed by competent authority.

The functions of the Committee, in the words of Mr. Osbert Peaks, Chairman, PAC, U.K. can be summed up as "First, to ensure that money is spent as Parliament intended to; second, to ensure the exercise of due economy; and third, to maintain high standards of public morality in all financial matters."4

The PAC had submitted nearly 100 reports until the formation of the CPU. out of these, 15 were relevant to the study of PU. Its coverage includes 15 PU out of 61 PU as in the year 1963-64 which was approximately 25% of the PU.

It is also true that the committee makes a post mortem examination of accounts, its enquiry is old by the time it book at the problems arising out of the expenditures.

However, the committee itself pursues its recommendations, visits the spots, censures the department at fault and puts forward its findings before the officials. Apart from producing tremendous effect on officials it also prepares them for the future.

Addressing the first meeting of the PAC on 10th April 1950, Mr. G.V.Mavalankar explained that although the Committee's work is one of post mortem but it cannot be considered on this account as less important. He stated, "the very fact of consciousness, that there is someone who will scrutinise what has been done, is a great check on the slackness, negligence or absolution of the executive. The examination, if it is properly carried out, thus leads to general efficiency of the administration. The examination may also be useful as a guide for both future estimates and future policies".5

Sydney Webb has also stated, "the fact that post-mortem examination does nothing to keep the patient alive is no proof that the existence of a system of post-mortem examinations does not prevent murders."6

Thus, the committee, as a judicial, non political and expert body, serves as a useful machinery to control the public purse. However, it works on the report of the Comptroller and Auditor General, who acts as its adviser and expert guide. The scope of review of the PAC is generally co-extensive with audit reports and the committee has to depend wholly on the Auditor General's reports.

Estimate Committee : Genesis and Functions:

The EC was constituted on 10th April 1950 weith 25 members drawn from the Lok Sabha. Since 1956, the membership was increased to 30 and according to Rule 311(7) of the Rules of Procedure and Conduct of Business in Lok Sabha,

'The Committee shall consist of not more than 30 members who shall be elected by the House every year from amongst its members according to the principle of proportional representation by means of a single transferable vote."7 The rule prohibits ministers from being members of the Committee on setting up a committee on Estimates, Speaker Mr. Havalankar had said, 'Consequent u9pon the Provision of Article 116, as also independently thereof, it was felt necessary to constitute a committee on Estimates for better financial control of the House over the expenditure by the executive; provision has, therefore been made for a separate committees on the lines of a similar committees in the House of Common called the 'Com mittee on Estimates'.8

Functions:

In the words of Simon Commission, the Committee was designed to "to familiarise the elected members with the process of administration and to make the relations between the executive and legislature more intimate."9

Rule 310 mentions the functions of the Committee: 10

(a) to report what economies, improvements in organisation, efficiency or administrative reform, consistent with the policy underlying the estimates, may be effected;

(b) to suggest alternative policies in order to bring about efficiency and economy in administration;

(c) to examine whether the money is well laid out within the limits of the policy implied in the estimates; and

(d) to suggest the form in which the estimates shall be presented to parliament.

The functions of the committee were not confined to the estimates alone. The scope of examination was all pervasive and could extend to any aspect of the organisation, working of any ministry/department of the government, any scheme, project or other activity undertaken by the Central government, involving expenditure from consolidated Fund of India. Its function was to suggest "economy consistent with efficiency."

The EC from its inception to the formation of the CPU submitted 46 reports covering individual and horizontal studies and 32 reports concerning action taken by the government on its reports and called it 'Action Taken Reports.'

The Committee acts as an effective instrument of parliamentary control over government expenditure. It also provides a forum for interaction between the government and parliament. Unlike the PAC, the members of the Rajya Sabha of the EC are not associated with it on the ground that, as the Speaker explained, "under the Constitution the Rajya Sabha has no right to interfere with or cut down any item of the Budget."[11] However, its reports are often criticised for absence of depth as present in the PAC, for the EC do not have competent technical advice as is available to the PAC in form of C&AG Nevertheless, one cannot deny that EC has been effective instrument of Parliament to exercise control over the executive. The accountability to Parliament in respect of both the criticism levelled by the committee and by the recommendations accepted helps to maintain high standard in administration.

Committee on Public Undertakings: Genesis and Functions:

Initially the EC and PAC looked into the working of the PE but the need for setting up a separate committee on PE was felt by many. The functions of the PAC were concerned as negative as it only did a post mortem examination. What was actually required was a review of past and present functioning and the policies envisaged by the enterprise for the future. Although, the EC could look ito this aspect but what was observed from its reports was that it dealt with the subject in a cursory manner.

It was, thus, hoped that this separate committee would adopt a broader approach than the EC and PAC and could examine the complete background of any major issue relating to a PE. Further, its function being restricted to PE alone, it could gain specialisation in enquiry which would act as a clear advantage over the EC and PAC.

Parliamentary Discussions: The demand for setting up a separate committee in regard to PE was formally made by Dr. Lanka Sundaram in the House of People on 10th December 1953. He himself a member of the EC stated, '... there is neither the time nor the opportunity for either the PAC or the EC to take a grip of the problems involved here... The basic position is that these committees are already overburdened with work and they have neither the opportunity nor the time to go into these questions fully."12 He suggested the creation of a PC which would look into the working of PE throughout the year. This would ensure effective authority of Parliament over these undertakings. The government approach was explained by the then Finance Minister, Sri C.D.Deshmukh. He declared 'In the fullness of time, there is nothing to stop us from setting up a body, which as far as I can see will be a sort of a combination of PAC and the EC for the special purpose of going into the accounts and affairs of these corporations... at the moment, I think it is advisable - it is not a question of being improper, it is a question of being inadvisable in the opinion of the government.' He also added that at the then stage of India's industrial expansion and development, there was a danger of the Parliament going too far and interfering in the day-to-day administration of the Undertaking.

A letter was addressed to the then Speaker, late Mr. Mavalankar who wrote a letter to the Prime Minister suggesting the setting up of a separate committee. He had expressed in 1954 that "EC and PAC are overburdened with the work assigned to them and find very little time to go into the working of the corporation."13 He further stated in his letter to the Prime Minister that the proposed committee will not go into the problem of day to day administration of such corporation, but would only consider questions of policy and then working broadly.' The proposal was not rejected but only postponed.

However, in 1956, Ashok Mehta again brought up this subject in Parliament during the debate on L.I.C. till he referred .to the move made by Dr. Lanka Sundaram and suggested that the idea of the separate committee on PE could be considered. A Committee of the Congress Party in Parliament was set up by the Prime Minister on the 10th of April 1958 with Mr. Krishna Menon as its Chairman. The Committee was asked "to suggest how a broad supervision may be maintained over their activities by Parliament, without any interference in their day to day activities."14 The Krishna Menon Committee finally recommended that a separate committee of Parliament should be established and as a result, the EC and PAC "will cease to perform their present functions in regard to the working of the concerns that came under the proposed committee."15

Thus, on 24th November, 1961, the government came out with a motion in the House of People proposing such a committee to be called, "Joint Committee on State Undertakings". However, on 21st September, 1963, the government actually moved the revised motion in which the word 'joint' was dropped. Finally, at the beginning of 1964-65 session of 3rd Lok Sabha, a separate Parliamentary committee on PE came into existence.

Functions:

The functions of the Committee has been laid down in Rule 312A of the Rules of Procedure and Conduct of Business in Lok Sabha which are as follows:

(a) to examine the reports and accounts of the Public Undertakings specified in the Fourth Schedule;

(b) to examine the reports, if any, of the C&AG on the Public Undertakings;

(c) to examine in the context of autonomy, any deficiency of the Public Undertakings, whether the affairs of the Public Undertakings are being managed in accordance with sound business principles and prudent commercial practices; and

(d) to exercise such other functions vested in the Committee on Public Accounts and the Committee on Estimates in relation to the Public Undertakings specified in the Fourth Schedule as are not covered by clauses (a), (b) and (c) above and as may be allotted to the Committee by the Speaker from time to time.

Provided that the Committee shall not examine and investigate any of the following, namely:

(i) matters of major Government policy as distinct from business or commercial functions of the Public Undertakings;

(ii) matters of day to day administration; and

(iii) matters for the consideration of which machinery is established by any special statute under which a particular Public Undertaking is established.

Having looked into the genesis and functions of the three PC, the recommendations of PE vis-a-vis BHEL would now be discussed and analysed. The analysis of the recommendations have been grouped broadly under the following areas:

(1) Project Planning and Administration of projects;

(2) Organisation and Management;

(3) Personnel Policies

(4) Financial Management

Project Planning and Administration of Projects:

Project Planning is the foundation on which the edifice of the operational phases of the projects rests. Proper Planning at this stage would help in ensuring the timely execution. Operational efficiency and economy of the projects. Thus, it is desirable to clearly spell out the types of studies that should be undertaken and the order in which they should be conducted before a project is finally approved by government for implementation. Under this area, the aspects covered for the analysis are Techno-feasibility of the project, Detailed Project Report, Project Estimates, Time Schedule and Saving, vital foreign exchange through Import Substitution and Export Promotion.

Techno-feasibility of the Project:

The CPU, IIIrd Lok Sabha, 1964-65 in 13th Report on 'The Management, and Administration of Public Undertaking stated that information such as demand projection, raw materials, size and technology of the project, location, earning estimate are basic which should be included in Techno-feasibility of the projects.

The CPU, III Lok Sabha, 1966-67 in its 39th Report on BHEL stated that the estimated cost, investment were some of the basic considerations in the matter of setting up of any industrial project. However, these aspects were not considered by BHEL before taking a decision for setting up their projects. The argument of the Secretary of Ministry was that at the time of venturing on these projects, the over-riding considerations in the context of development of power programme was that of self-reliance in the building of electrical equipment in the country. Thus, costs and profitability were secondary considerations. However, the Committee did not accept this argument and stated that although considerations of self-reliance are important but the economic aspect of any scheme cannot be ignored. Thus, the committee suggested that the government should insist on having this important and basic data before a project is sanctioned.17

The government accepted the recommendations and explained that the Planning Commission had issued a manual in May 1966 to ensure a thorough study of all factors relevant to project selection (Appendix B). Further, it had indicated to ministries and the project authorities concerned that proper feasibility studies should be prepared as indicated in the mannual. The procedures for according approval to the projects had also been rationalised by the government.

Concerning the location of a project, there is no doubt that it is one of the decisive factors in the economics of working of the unit. The EC, 3rd Lok Sabha, 1962-63 in its 35th Report on Heavy Electricals (India) Ltd., Bhopal had clearly stated that the government should lay down broad principles to guide in the selection of sites for factories in future. These principles may apart from availability of power and water supply, raw materials and transport include expert opinion on foundations and soil conditions (Paragraph 273).18 It was hoped that with the experience at Bhopal and with the indications given by AEI in the Project Report, the basic consideration which have emerged would be kept in view while selecting sites for the new projects.

The governments reply towards this suggestion was that unless other overriding considerations supervene attempt would be made to locate public sector projects in areas where industrial development is lagging behind and areas which are industrially conjested would, in particularly, be avoided. It further stated that Technical Committee which normally looked into site selection would now look into the suitability of soil too.

The government did accept the above recommendations but it had to repeat these recommendations in many of its report. Its impact seemed to be ineffective. For, in 1967-68, CPU again pointed out the same problem in selecting the sites of its three projects - namely Heavy Electrical Equipment Plant at Raipur, near Hardwar in UP, Heavy Power Equipment Plant at Ramachandrapuram, near Hyderabad in Andhra Pradesh and High Pressure Boiler Plant at Tiruverumbur, near Tiruchirapalli in Madras. The Committee found out that the primary considerations for choosing these present sites were technical and not economical which was equally important.19

The Committee also noted that the above three projects were interlinked with each other. What was required by a single power project was being manufactured at three separate places. This would lead to increase in the ultimate cost of the assembled equipment to the consumers due to the location of plans so far away from each other. This, according to the committee had been totally ignored.

In view of these recommendations, the government explained that each unit of the company was sufficiently large in terms of investment potential, managerial organisation, provision of services etc. Considering the need for regional disparity, the committee pointed out that it was not quite possible to locate all the units at the same place or even in the same state. However, it mentioned that the Heavy Electrical Equipment Plant and the Central Foundry Forge would be at Hardwar as Heavy Electrical Equipment Plant was the largest single consumer of the castings and forgings produced in the Central Foundry Forge. Same was the case with Heavy Power Equipment Plant and the Switchgear Unit which were both located in Hyderabad. This explanation of the government was accepted by the Committee.

EC in its 35th Report has pointed out that there was a general tendency on part of public undertakings as well as government organisation to have their head offices at Delhi, particularly those which are administering more than one project. It was pointed out that there were other undertakings like Heavy Engineering Corporation, National Coal Development Corporation, Hindustan Machine Tools etc. having more than one project and are not experiencing any difficulties without such offices at Delhi. CPU in its 39th Report again suggested that once the construction work of the project was over, the Head office of BHEL should be shifted from Delhi. The justification given by the government that the head office at Delhi would lead to less interference in day-to-day administration of a project was not found to be very convincing. But, all that the government did was to note the above recommendations.

The CPU had also recommended in its 13th Report (1964-65) that the government should lay down the form and the manner in which the Cabinet approval to projects is sought.20 It was suggested that every proposal should indicate the investment output ratio, so that the economic viability of the project is clear. However, these suggestions remained ineffective as adequate measures regarding this were not taken by the government. These accommodations were again repeated by CPU in 1967-68, in its

39th Report. It was observed by the committee that the economic aspects like Total Capital Cost, profitability etc. were not brought to the notice of the Cabinet (Refer to Paragraph 40 of this Report).

Much impact of the above recommendations have not been noticed on the working of BHEL. It was found that most of the recommendations were mainly repeated from one committee report to another and all that the government did was to note them but adequate measures were not taken.

Detailed Project Report (DPR):

After the feasibility study has been accepted and the investment approved, the DPR is prepared.

The CPU (1964-65) in its 13th Report should concerned regarding the manner in which the project reports were commissioned without having a definite idea of the product mix or the quantity to be produced.21 As a result, such incomplete reports had to be followed by supplementary project report and thus caused delay in the launching of a project.

With this regard, the EC in 1962-63, in its 35th Report found that even in the constructional stages, the output of the factory at Bhopal had been frequently revised which obviously led to extra expenditure and also affected their progress.

The EC, IInd Lok Sabha, in its 51st Report on Ministry of Steel, Mines and Heavy Engineering had again observed that the time taken at the various stages of finalising the project reports, had been rather long. It suggested that it would be desirable if a review of the processes involved in the collection of data, preparation and finalisation of DPR and the time taken therein is made by the government with the view to reduce timelag to the minimum in future projects (para 14).22 This recommendation was again repeated by CPU IIIrd Lok Sabha in its 13th Report.23 Inspite of these repeated reminders, the CPU in its 39th Report in 1967-68, on BHEL again noticed that there had been a delay of 15 months between the receipt of Preliminary Project Report and commissioning of the DPR. The committee found the delay unduly long and believed that it could have adverse consequences especially when two or three projects were intra-linked with each other. (para 27). The government again noted the above observations.

However, the 13th Report of the CPU again observed that the time taken by some undertakings of BHEL, BEL, HEC needs to be shortened which might lead to greater wastages later. The committee recommended that a time table should be prescribed for the completion of the scrutiny and submission of a report by an adhoc committee appointed to examine a DPR. Further, these reports could be simultaneously, circulated to the various concerned agencies so that they might be in a position to give their views as soon as a reference is made to them.

The Committee thus viewed that no project should be approved till the DPR had been prepared completely. However, action taken by the government towards this recommendation is yet to be seen.

Project Estimates:

The CPU has reiterated in many of its reports that project estimates should be prepared realistically and should also include total commitment before they are made available for sanctions.24 It also suggested that the government should also conduct a post review of the reasons for under-estimates in the past. The economies of the project are adversely affected as a result of revised estimates thus making it necessary for the parliament to be aware of it in time with supporting details.

The EC, 3rd Lok Sabha, in its 35th Report pointed out that one of the considerations in selecting AEI in preference to Siemens was that their estimates were more realistic. AEI has proposed estimates of Rs.15.9 crores compared to Rs.10 crores indicated by Siemens. Further, it was also believed that AEI were in an advantageous position as they had the knowledge of local conditions of the country. Inspite of this, their estimates were also found to be a gross underestimate within a period of 18 months which rose to Rs.28.16 crores. The Committee believed that the consultants were generally anxious to secure contract and in their anxiety had submitted lower estimates. It was hoped that the government would in future examine the project reports thoroughly before sanctioning it (Para 141-142-143). However, it had to be reiterated by the CPU in its 39th Report in 1967-68. The Committee fell that both the undertakings and government had taken an inordinate long time with regard to preparation and sanctioning of the estimates. The construction of Hardwar Project had started in 1963 and had also gone into partial production but the project estimates has not been finalised or sanctioned till them (Para 77).25

Although, in the reply to the government, the Committee ensured that the suggestion was noted and as the cases were in the final stages of consideration, approval would be accorded shortly. However, in 1971-72, the CPU Vth LS, in its 21st Report on BHEL noted that the common items like cost of project Report, working drawings and incidental expenses during construction which are generally included in any project report were omitted. As a result, project estimates had to be revised. As against the first estimate of Rs.63.43 crores for the project prepared by the government, the project was estimated to cost Rs. 98.13 crores an increase of about 55% of the first estimate (Para - 2.27).26.

The Committee also noticed delay in sanctioning of Projects. It has recommended numerous times that government should accord its sanction to the estimates without delay but no serious efforts have been made in this direction. In case of Heavy Electrical Plant, Hardwar it took 3 years for the government to sanction the estimates. The Heavy Power Equipment Plant, Hyderabad had also been delayed because its revised project estimates had to be prepared. Even the revised estimates, later, were found to be incomplete. To add to all this, the government further took more than three years to approve the revised estimates. This problem was again pointed out in the CPU, VIIth L.S., in its 44th Report on BHEL (Para 31).27.

The frequent revisions and large increase in estimates violates parliamentary control. Thus, it is essential that the project estimates of costs and benefits are realistically prepared and sanction is accorded by the government without delay.

Time Schedule:

The preparation of a time schedule is essential for the timely completion of projects. The EC, IIIrd L.S. 1963-64, in 51st Report stated that it was essential for proper planning and execution that definite time schedules of construction and commissioning of projects are prepared as early as possible and are adhered too. (Para 23). Further, the CPU, IIIrd L.S. in its 13th Report believed that as far as possible, such a schedule should be in the DPR itself. But if for any reason it is not possible to do so, it should atleast be worked out and laid down immediately, after the receipt of the DPR (para 122). Moreover, it was also essential that time schedules drawn by the consultants or project authorities were sufficiently detailed to enable the management to keep a close watch over the progress of the project.

The EC, on its 35th Report in 1962-63 observed that although the government recognised the need for setting up a factory for the manufacture of heavy electrical plant in the country in 1946 itself but a decision regarding this matter was taken only in November 1955. Had the decision been taken in 1949 when project reports of three well known firms were available, valuable period of six years would not have been lost. By 1953, production would have had started and also saved valuable foreign exchange. Moreover, the expenditure incurred on preparation of reports in 1949 and 1954 would also have been avoided. Although these observations of committee were noted by the government but the CPU, in 1966-67, in its 39th Report had to again stress the importance of a time schedule in a project for its timely completion and for a proper technical and administrative control during constructional stage. It pointed out that in case of Hardwar project, the project authorities had no knowledge of such a time schedule before they had started the execution of the project. Although justification was given by the government that the consultants did not deliver it to the project authorise but there were hardly any efforts made on part of the government to obtain the time schedule or for that matter to prepare one. (para 44). Although the date was advanced to 31st

March 1969 but as pointed out by the CPU in its 21st Report that it was not completed till 1977-78 the CPU again stressed against the frequent revisions which were being made in the date of completion of projects. The committee was although informed that 95% of the project was completed, it was found that out of Rs.380.75 lakhs of equipment Rs. 70 lakhs has not been unstalled. Thus ultimately, there was a delay for more than five years in the completion of the project. The committee stated that unless the management remained alert to their duties towards the nation and adopted modern techniques for planning, installation and commissioning of the machinery in the projects, such delay could be obviated.

In 1981-82, the CPU in its 44th Report, observed that there had been long delays in delivery and serious complaints regarding quality. Although BHEL had informed that most of the reasons for delay were beyond the control of BHEL but the Ministry of Energy did not agree with this contention. They indicated that over the period 1978-81, there were twenty two cases in respect of which major delays occurred in project completion and the specific delays in the supply of equipment supplied by BHEL that contributed to power shippage.

Import Substitution and Export Promotion:

It is a well-known fact that most of the public sector projects have to depend for a substantial portion of their raw materials supplies, spares and components on imports entailing considerable foreign exchange. However, in many of the Committee Report,28 it has stresed that every effort should be made to avoid wastage of foreign exchange on the imports of products which can easily be manufactured in the country or whose substitutes are available. It was suggested that efforts should be made to completely do away with the imports of sphares of electrical equipment already in use in the country. All users of such equipment could be told to procure or prepare the drawings and designs of the various parts and components required by them so that indigenous production could be undertaken. The factories of BHEL could also do the utmost to manufacture such spares and instead of allowing imports, users should be encouraged to place their orders with BHEL.29 The government should also ensure that where indigenous supplies are available, undertakings should not be allowed to import. The requirements of ancillary and auxillary industries in the public sector projects could also be ascertained which would enable the indigenous industries to produce more components, spares etc.

Further, the committee recommended that intensive efforts and research should be made for using substitute materials, easily available in India, for products which are imported so that dependence on imports may cease. The example of copper which was being replaced by alluminium to a greater extent was cited.

The Committee also suggested that actual requirement should be known before imports are undertaken otherwise it would lead to wastage of vital foreign exchange. The CPU, 21st Report on BHEL (1971-72) had observed that imports of alloy steel valued at Rs.17.89 lakhs had been undertaken on 'adhoc basis without looking into the actual requirement' at the time of procurement. This had led to surplus alloy steel of the value of Rs.10.60 (para 2.105). The government noted the above recommendations and ensured that attempts were made to utilise the surplus steel.

The EC, IIIrd LS, in 1962-63, in its 35th Committee Report noted that Heavy Electricals Ltd. (Bhopal) were making efforts to increase the export earnings of the country. In order to face the tough competition from the other countries, the committee suggested HEL to adopt improved designs and production techniques. Further it suggested that it was advisable to confirm exports initially to certain types and ranges of equipment which would lend themselves to mass production. In its reply to the government, HEL stated that it proposed to export only 11 KV circuit breakers and capacitor which can be covered by mass production.

However, the beginning in export promotion was made by the Hardwar Plant when they submitted quotations for global tenders. Standardisation of products to suit international specification adherance to delivery sdchedule would help the plant to secure orders and earn suitable foreign exchange. However, the CPU, Vth Lok Sabha 1971-72 in its 21st Report stressed that first charge in the Hardwar Plant should be that of electricity Board of the country which should not suffer in the event of the plant accepting global orders (Para 2.119).

In 1981-82 the CPU in its 44th Report on BHEL pointed out that there was a net foreign exchange outgo of the order of Rs.129 crores in 1978-79, Rs. 10 crores in 1979-79, Rs. 173 crores in 1979-80 and Rs. 177 crores in 1980-81. In view of increase in net exchange outgo, the need for faster indigenisation and augmentation of exports of goods and spirits was felt.

Justifying the large imports in 1980-81, BHEL stated that out of Rs, 291 crores, Rs. 114 crores was paid as customs of the remaining Rs. 1777 crores, imports of raw materials and components worth Rs. 141 crores was unavoidable. Further Department of Heavy Industry considers the progress by indigenisation of BHEL has been satisfactory over the years. In products like hydro turberies, hydro generators, steam turbone of USSR designs turbo-generators boilers, A.C. Motors, A.C. motors air pre heaters, BHEL has achieved significant progress so far as possibilities within BHEL are concerned. Emphasis is also being placed on augmentation of exports of goods and services. Deliberate steps have already been taken to draw up a clear plan for increasing exports, to establish imports, exploring new market possibilities and stepping up export of services to developing countries.

Recently, for the first time in the country, BHEL has indigenously designed and developed 36 kilovalts gas insulated vacuum switching ear (GIS), healding a new era in the distribution of electric power. So far, such switchgear were being imported but now the country would be able to save substantial amount of foreign exchange.30

Management of the Organisation:

The main thrust of recommendation of the CPU on management of public undertakings is concerned with empanelment of top posts, frequest changes in the Board, incapability of funding suitable persons for top posts and Chairman-cum-Managing Director.

The EC in its 35th Committee Report (1962-63) claimed that in making appointment to the Board, the criteria laid down by government in Section III of the decisions on the recommendations contained in the report of the Krishna Memon Committee and studies on the running of PE were followed (Para 17).

The EC in its 35th Report had stated that the members of its Board of Directors should be drawn from a wider sphere than at present and that technical experts and men experienced in the line should be appointed to the Board. Care should be taken that no one with a direct interest in the same indusdtry in the private sector is appointed.

Regarding the qualification of Directors, the committee pointed out that the responsibilities of such Boards was very onerous. Apart from providing the necessary leadership and direction to the undertakings, they have to ensure that the management of the various projects under their charge is sound and effective. The Committee suggested that government might lay down qualifications and the nature of experience expected of persons who are appointed as members of the Board of Directors of industrial undertaking (Para 185).

The government in its reply to the committee denied the need for prescribing minimum qualifications for the members of the Board of Directors. They stated that the Boards consists of a representative of the administrative Ministry, a representative of the Finance Ministry, one or two Government Directors representing the consumer department/Advisory Boards and a few non-official directors. Government tried to justify that only such persons whose presence on the Board would contribute to the successful functioning of the company were appointed. However, this does not make the need for prescribing minimum qualifications for the members of the Board less significant.

Krishnan Menon Committee had stated "there was no hard and fast rule either in regard to the academic, technical or other qualifications or of age with regard to selection of the Chairman. It is obvious, however, that he should have maturity of judgement, experience of the particular type of concern or of similar kind of industry, the capacity to work with a team and a personality that would enable him to give a lead by his example to both staff and labour. He should normally be beyond acute political or other part or sectional controversy which would make him start with a handicap. It was also suggested that it was desirable for the person appointed to be within the age group of 30-50 years. This was to avoid the practice that the Chairmanship of Boards is treated like a 'berth' for retiring civil servants or others who are appointed to the post as part of the reward for any service they might have rendered to a political party."31 However, in this case, the committee accepted these principles as healthy and hoped that these would be kept in mind by the PE in future. The government noted the observations.

The 39th Committee Report pointed out that the present Chairman then was retired from the Railway Board on attaining the age of 59 years and had joined BHEL immediately. The fact that government was employing retired and superannuated persons for such posts showed that no effective steps have yet been taken to train persons at the middle managerial level for top posts. The committee further noted that even after having considerable experience in setting up public sector projects, it faces difficulties in finding suitable persons to man the top posts in public sector projects (para 100).

The EC, IIIrd L.S. (1963-64), 52nd Report on Personnel Policies of Public Enterprises, too recognised that the success of the undertakings depends, to a large extent, on the direction and guidance provided by the Chairman-cum-Managing Director. He would need some items to acquire an intimate knowledge of the problems and programmes of the interprise. It is very important to ensure continuity in top posts. Thus the committee recommended that till such time as each undertaking is able to provide managerial talents from within the organisation, the incumbents of these posts should be selected carefully and appointed for a minimum term, say five years, so as to enable them to fully implement the plans and programmes entrusted to them. This would enable them to contribute to the efficient and economic working of the enterprise concerned (para 45).[32] However, this was repeated again by the CPU but has not led to adequate measures. Regarding BHEL, the Chairman is appointed for 3 years.

The 39th Committee Report mentioned that the Board of Directors of BHEL comprising of six members, had also set up a sub-committee. This three member sub-committee also included the Chairman as the member. The powers and functions of the sub committee were to consider any matter that may be referred to it by the Board of Directors or by the Chairman himself on matters which might need the consideration of Board of Directors. The Committee pointed out that the sub committee alone should not take decisions on important matter like the Budget estimates and Project estimates without bringing to the notice of the Board. It recommended that if it was necessary to have the sub committee its powers and functions had to be specified. Although the government noted the observation but did not agree that its powers had to be prescribed in writing.

Personnel Policies of the Organisation:

The personnel department of a Public Undertaking should have professionally qualified and experienced personnel to ensure that it effectively discharges all the statutory obligation imposed on the employers by the Labour Laws. The functioning of the top personnel and the manner of their working are no doubt, a matter of utmost importance to an organisation in the efficient discharge of their duties.

The EC, IIIrd Lok Sabha, (1963-64) in its 52nd Report on Personnel Policies of Public Undertakings had mentioned that if public undertakings have to achieve efficient and economic production and secure adequate return on the capital employed, it is very necessary that detailed and realistic estimates of staff requirements are prepared by them and their establishment expenses, which account for a major portion of the cost of production, are kept to the minimum.

Concerning this problem, the EC in its 35th Report found that the HEL, Bhopal Project was overstaffed for its present level of output. They recommended a thorough review of staff strength specially the non-industrial staff at Bhopal. The government in its reply ensured that it was being done further. The committee in its 39th Report further stated that often after the completion of the construction of the project, it was found that some of the staff had to be retrenched. The Committee hoped that the government would give earnest attention to this problem and make suitable arrangement for the absorption of surplus personnel elsewhere so that the project would not be burdened with surplus staff (para 103). The observations were noted by the government and proved to be effective.

The 21st CPU Report found out that the temporary employees recruited during constructional stage who gradually became surplus to requirement on tapering of construction were given first preference for absorption in the regular establishment.

Personnel on Deputation:

The EC's 52nd Report had stated that besides being costly, the practice of depending upon government for manning posts in Public Undertakings, particularly non technical ones is not very condusive to efficiency. Such officers who have nothing to stake can hardly give their best to the organisation. They fail to develop a feeling of attachment to the undertakings and do not identify themselves with its problems. Thus it suggested that earnest efforts should be made to recruit, train and develop their own men and do away with their dependence on deputationists within a period of say 5 years since they were set up. Thus, unless it was necessary, government was asked to discourage the public undertakings from appointing deputationists.

However, the 39th CPU Report noted that a large number of persons had been taken on deputation from government departments to the projects of the company. The committee expressed that it was not desirable to have indefinite employment of deputation from government department to the projects of the company. The committee pointed out that if a man was taken up from the government Department and if his work and conduct were found satisfactory, then he should as far as possible be permanently absorbed in the organisation, subject to the conditions of service of the company. This, the committee explained, would enable the staff of the company to develop a sense of belonging right from the start of their career. The government in its reply stated that action was being taken to absorb deputationists in permanent jobs. The recommendation of committee were accepted as the 21st Report of the CPU also pointed out that except for a few posts in some department where it is absolutely essential to appoint a deputationist, deputation was not being looked upon as a measure of filling a vacancy.

Recruitment of Retired Personnel:

The EC, in its 35th Report noted that out of forty-five retired persons employed by HEL, thirty-two were engaged on non-technical jobs including that of Assistants and Clerks. The Committee agreed that initially there could have been justification for HEL to re-employ retired personnel for certain technical jobs till suitable persons had been trained, but they did not appreciate the reasons for employing retired oficers for non-technical secretarial jobs. Thus the committee urged the government to indicate the principles to be followed by public undertaking in the employment of retired personnel. Although these observations were noted but the EC in its 52nd Report again had to repeat these suggestions.

In the 39th Report, the CPU again pointed out that the retired personnel could not be employed on the considerations of experience alone. Further, it also resulted in blocking the opportunities for the younger people. It again suggested laying down of a policy for the employment of retired persons in the PE. Finally, the government came up with a policy iln this regard in Ministry of Finance O.M. No.2(32)/67-FI, dated 28th July, 1967 (Appendix C).

Resignation of Persons:

The CPU in its 39th Report observed that ninety-eight persons had resigned from the Hyderabad Project. The Committee felt that there were some large inherent causes which had persuaded these persons to resign. Thus the government was asked to investigate the cause and take remedial action. However, when the government conducted an enquiry it was found that one of ninety eight persons, not less than seventy nine were from the Civil Engineering Department. This is a temporary department which functions on a large scale during construction phase only. Government found out that most of the employment were satisfied with the salarie and other conditions of work. Some, did feel that amenities available at the project site were not satisfactory. However, with the establishment of township, no such difficulty was present. Thus recommendations had been made by committee without looking into the prevailing conditions in detail.

Employment of SC/ST's:

The EC in its 35th committee report observed that out of 8000 persons employed at Bhopal, the number of staff belonging to SC & ST were 495 and 110 respectively. The committee suggested that the management of HEL should seek the assistance of various organisdations engaged in the upliftment of SC/ST in the country. BHEL's significant contribution in this area has already been pointed out in the previous chapter.

Financial Management:

'Financial Management' has come to be recognised as the key functional areas in modern management. Although it is a broad area covering a number of aspects, but the CPU has confined to a few aspects such as debt - equity ratio, working capital, Pricing, Profitability and Auditing where BHEL is concerned.

Equity - Debt Ratio:

In 1960, government considered the question of destributing the investment made in public undertakings in the form of equity and debt. It was felt that a 50:50 distribution between equity and loan could be adopted.

However, the CPU (1967-68) IVth LS, in its 15th Report on Financial Management in Public Undertakings observed a marked divergence of Opinion between the undertakings and the Ministries in this matter. The committee realised that there could not be one common ratio applicable for all undertakings. Thus it recommended that rigidity may be avoided in applying this ratio to all public undertakings (paragraph 112).[83]

The Chairman, Heavy Electricals (India) Ltd. considered an equity debt ratio of 2:1 as suitable for heavy engineering industries Equity in such a case would be adequate to cover all the capital investments and part of working capital in the initial years. However, if heavy loan were taken, the undertakings would be in the unhappy position of having to pay interest even before the commencement of production. Such interests, according to the committee got written in books and led to further losses. He, therefore, suggested that in early years at least, interest should not be levied.

The CPU in its 39th Report discussed the capital structure of the company during evidence with the representative of the Ministry of Industry and the Ministry of Finance who explained the Policy as follows.34

'While actually advancing the funds to the public sector undertakings although the ultimate total capital is maintained on the basis of 50-50 a decision does also exist that the first 50% of the total capital will be given in the shape of equity and the subsequent 50% in the shape of loan... So at the end of any particular year there can be an imbalance between equity and loan but when the total outlay is completed for each undertaking, the equity loan ratio will be 50-50.'

The CPU's 39th Report also found that the capital structure was not in accordance with the policy laid down by the government. It explained that the total capital cost of BHEL was established at Rs.147.7 crores. On the basis of policy enumerated before the committee, the equity capital issued to the company so far is below the 50% cost estimates and hence if the capital structure were to conform to the policy, then no loan should have been issued to the undertaking (para 73).

Although the above situation was accepted by the government i.e. the capital structure was not in accordance with the policy, but the same situation was again observed by the CPU in its 21st Report. However, now the government replied that it had already considered the question of reconstruction of the capital structure of some of the heavy engineering indudstries and have also authorised reliefs to some of the industries like HEIL, BHEL by reducing the interest burden through moratorium etc.

In 1981-82, the CPU in its 44th Report observed that the paid up capital of BHEL at the end of March 1981 was Rs.

150 crores, outstanding government loans were of the order of Rs.222.91 crores and Public Deposits were by Rs. 14.42 crores. According to the government policy, debt equity ratio should be 1:1, BHEL informed the committee that they had asked the government for more of equity in order to restore debt equity ratio to 1:1 and that the government had also agreed to release part of the budgetary support in the form of equity. It has already been discussed that in the prevailing scenario, it would be difficult for PE to be efficient without adequate budgetary support.

However, the CPU's 15th Report on Financial Management of Public Undertakings found that the Public Undertakings were being put to unnecessary difficulties on account of inadequate working capital. This resulted in their efforts and terms being diverted from the important objective of maximising production and keeping the cost low. It was observed that SBI were not providing facilities at competitive rates and was insisting on government guarantees in addition to security of assets. In some cases, SBI was also stated to have expressed their inability to provide funds to the required extent. The committee, recommended that government should find out whether SBI will be able to meet the working capital requirements of all public undertakings on suitable term. If not, then the Public Undertakings should be free to raise cash credit from other banks.

The Committee also suggested (para 128) that Public Undertaking should work out their working capital requirement and exercise stricter control on outstanding inventories and other current assets. Due to inadequate care exercised in this regard, the requirements of public undertakings has also been increased.

With this regard, the CPU in its 39th Report on BHEL observed that the projects of the BHEL had certain dificulties regarding their working capital requirements e.g. Trichy project when they were unable to obtain their requirements from Banks, they temporarily utilised the funds made available by government for capital works. Although this was found to be improper but the government did not leave them with any other alternative. The committee suggested that the public sector projects should be authorised to borrow their entire requirements from the banks on the basis of the guarantee provided by the government.

In the present scenario of liberalisation this problem has further intensified. The CMD of BHEL stated:

"Primarily the difficulty is of financial capability. That overseas suppliers who are wanting to sell the equipments are able to arrange export credit, commercial guarantee etc. because the interests rates abroad are cheaper. However, BHEL are unable to raise the same from the overseas market and the capacity and the capability of the Indian financial institution is also limited. Further, it was also doubtful whether large commercial loans would be forthcoming without counter guarantee from Central Government."35 But the Ministry of Finance had made it clear that government guarantee from Central Government would not be available for such commercial borrowings although they would be allowed to have access to the borrowings markets. Further, they stated, Now if they are viable and they can find borrowers, they should not do it on a government guarantee. They have to risk on their own."36 But is is yet to be seen, to what extent, BHEL would be able to survive domestically and internationally in the prevailing conditions.

The CPU, in its 15th Report stated that the financial committee felt that it was not possible to lay down any uniform method on the basis of which public undertaking can be asked to determine the prices of their products. Their pricing policy will naturally depend on different selling conditions such as competitive selling... Public undertaking should not, however, losed sight of the basic fact that they must prove to be economically viable units and earn a reasonable return on capital employed, so that they could contribute to general revenues (para 183). In case the buyer was a government department, the price should not be allowed to exceed 'the cost of production plus a reasonable margin.' It was stated that the government should ensure that the prices are fixed with a time schedule so as to remove all ambiguity and uncertainty which militate against efficient functioning of an organisation as well as sound financial management.

Adequate measures were taken by the government with this respect. Guidelines for fixation of prices had been issued by the government and in accordance with those guidelines, disputed cases could be referred to a commission constituted for this purpose. The guidelines were set out in Ministry of Finance BPE circular No. BPE/40/Adv.An/68/25 dated 27.12.68.

Profitability:

PE aims to harness dormant financial resources into productive investments and thereby accelerate the rate of growth. Thus their financial performance is important but it should be remembered that it has over-riding social responsibilities which may reduce its capacity to make very high profits. With regard to preparation of Profit and Loss accounts, the CPU in its 15th Report stated the necessity for preparing periodic profit and loss account to detect unfavourable trends in working results. It was observed that in Indian Oil Corporation Ltd. and Air India monthly profit and loss accounts were prepared. In Hindustan Steel Ltd., Heavy Electricals (India) Ltd., and Heavy Engineering Corporation Ltd., half yearly profit and loss accounts were prepared. The Committee considered that preparation of periodic profit and loss accounts should be considered as one of the main functions of Financial Divisions. They accordingly recommended that undertakings should prepare such statement atleast quaterly, because only then will it be possible for the management to know the operational results ion time and effect adjustment as might be necessary for improving the operational results.37

Considering the working results, the 44th CPU Report observed that the overall profit of the BHEL came down gradually from Rs. 62.9 crores in 1976-77 to Rs. 37.5 crores in 1980-81. Four out of nine divisions of the company, were incurring huge losses throughout the period 1987-91. The committee suggested that BHEL should evolve suitable strategy to arrest the deteriorating trend in profitably and stabilise the profits at a reasonable level to create sufficient internal resources for future needs. Further, the necessity was felt for making the new units viable, improving capacity utilisation and ensuring better marketing facilities. Adequate measures were taken by the government towards the above suggestions. A high level corporate committee under the Chairmanship of the Chairman-cum-Managing Director had been constituted to review and monitor regularly the viability programmes of the new units. The detailed plans for each of the unit had been drawn and were implemented. This included area, such as change of product mix, creation of new market areas, technology absorption, cost reduction etc. With this, profitability was expected to stabilise, according to the government and the profit before tax for year 1981-92 was Rs. 57.65 crores. The deteriorating trend in profitability was indeed reversed.

Audit:

Audit is another important form of control on PE. Audit is an instrument of financial control. The primary functions of audit is to ensure that in the process of spending government funds all canons of financial propriety has been observed, the rules and regulations which govern expenditurs are adhered to the expenditure voted by the legislature are not exceeded or varied and money expended are legally available and applied to for the purpose for which it had been intended.

The CPU, in its 15th Report, IVth L.S., on 'Financial Management in PU' had discussed this aspect in detail.

All the government companies, according to the report were subject to audit by chartered accountants generally called the Statutory Auditors. The appointment of auditors is made by the Central Government on the advise of the C&AG. By virtue of power vested in him under Sedction 619 of the Company's Act, C&AG, according to the Report could give directions to the auditors regarding the matter in which the company's account should be audited. They could also give instructions with regard to matters relating to the performance of their functions. Such instructions were issued by C&AG in 1962 and later modified in 1965.

The Committee was convinced that the supplementary or test audit of the accounts of public undertakings by C&AG in some forms or other was essential to ensure their accountability to government and Parliament. However, along with few other organisations stated that there was duplication of audit work between statutory Auditors and C&AG's audit team. Further, it complained that much time was taken in making arrangements for audit and in answering queries of audit team. Regarding this the committee clearly stated that such problems could be solved by greater co-ordination between the C&AG's office and the statutory auditors (para 199).

It also recommended that the functions of the Internal audit should include a critical review of the system, procedures and the operations as a whole. The Ministry of Finance while accepting the above recommendations had directed the public undertakings in September 1968 to introduce such a system. However, the 21st Report of CPU on BHEL observed that no such appraisdal had been conducted. The Committee observed that the Internal Audit had not been affective in discharging its functions. It further recommended that it should be intensified so that management can take advantage of its reports in plugging loopholes.

These recommendations proved to be effective for it was found that a critical review of system and procedures and operations as a whole was being regularly conducted by the Finance and Accounts Department and a beginning towards this direction had been made by Internal Audit with effect from the year 1972-73 in conducting performance appraisals of service units. With regard to production units, the government replied that performance appraisal would be conducted as soon as norms are laid down for individual jobs which are in progress.

Audit System of parliamentary control is helpful to the management as it enables them to locate the deficiencies in the working so that they could adopt methods for their rectification as well as improvement. However, the Administrative Reform Commission Report has pointed out the defects of this type of parliamentary control. The multiplicity of external audit leads to waste of time and efforts of the management because it has to reply to the detailed questions and objections raised by auditor. Secondly, the government Auditors do not have proper appreciation of commercial nature of PE and often raises trivial issues which affects the initiatives of the enterprising management. Finally, the report stated that the auditors did not have the necessary expertise to undertake an adequate and systematic appraisal of managerial efficiency.

Although, the job of the auditor is such that it is found to be irritating to the management, its significance cannot be ruled out. Without some form of control over audit, there will be no check about the proper use of this government money used in the PE. Thus, it is one of the significant tools of control on PE.

Autonomy and Accountability of PE:

PE have been set up under the provision of stalute for undertakings on behalf of the government activities of industrial, commercial or financial nature or special service in public interest. In order to ensure that PE function effectively and deliver goods in the fast changing economic environment, it is essential that these enterprises have operational autonomy in managing their resources such as finance, manpower and assets, in such a way so as to achieve short term goals as well as long term objectives.

In private enterprises, autonomy in the management is an accepted fact. The shareholders normally meet once a year, elect their representatives on the board of directors and autonomy is granted to a certain extent. However, in PE, the situation is different. Funds for PE come from the pool of national financial resources, making the citizens of the country as a whole constitute the owners of PE. As these citizens are represented in the national parliament, the parliament lays down the operational policies which circumscribe management autonomy in PE.

It has often been entrenched that an organisation would pursue its goals more efficiently if its boards is left free to exercise its judgement and discretion and is relieved of close political control and supervision. Detailed interference would lead to delays, overcaution and lack of confidence on the part of those running these industries. The late Speaker, G.V. Mavalankar, 19th November 1953 wrote, "The general rule will be that the autonomy given by the statute will not be ordinarily interfered with. If the interference is allowed, then the very object of autonomous bodies will be defeated. The problem is to maintain a balance between a democratic principle and the efficient running of business."38

This was also stressed in the Second Five Yerar Plan which stated that 'The general policy, therefore, is to confer upon their managements the large measure of financial and administrative autonomy consistent with the overall responsibility of government and accountability to parliament."39

Thus, there is no doubt that government interference in the Operation of PE should be avoided and limited only to the issue of policy directives. It is very essential that these policy directives are in writing so that responsibility can be fixed on the Minister concerned. Further, these could also be published in Annual Reports of the PE. This would help in solving many difficulties and remove a great deal of confusion." However, there cannot be complete autonomy as long as PE are publically accountable.

Accountability means to give an account of one's action and to report on the achievement of prescribed objectives. In other words it means the responsibility of the administration to the Parliament of public expenditure. Further, it would refer to not only the submission of accounts of completed expenditure for inspection by the Parliament but also the Parliamentary right to criticise or to apply sanctions in case of excessive expenditure. The primary purpose of accountability is to define the relationship between the various authorities so as to focus responsibility to facilitate coordination with related programmes, to ensure consistency in the implementation of policy of the government to conduct operations with maximum efficiency and economy and in accordance with law; and finally to apply from time to time the pressures and sanctions to remove inertia, friction, impediments, or obstacles in the way of the fulfilment of the tasks of an organisation or enterprises.

There is no doubt that accountability and autonomy are two sides of the same coin. The more detailed and extensive a system of control over the actions and decisions of the management, the less accountable the management becomes. An agency which merely complies with directions or regulations cannot be answerable for shortfalls in achievements but only for procedural delays without adequate degree of autonomy, there can be no real accountability and unless the undertaking and its management accept full accountability, they cannot ask for autonomy. There needs to be a 'balance' between the two.

Too much of control over day to day administration would lead to the very form of accountability to vanish and management in such a case would evade responsibility by alleging, interference. Thus some sort of 'balance' needs to be struck between public accountability and autonomy. Autonomy should not cross the limit where accountability is compromised or diluted. Similarly, accountability should not be overemphasised otherwise the very purpose of setting up of autonomous corporations would be defeated. Sachar Committee in 1978 reported, "The administrative ministries or departments which promote these companies make them function as mere appendages. In course of time, the government company happens to become no more than extended arm of the government department, so much so that it becomes difficult to distinguish between a government company and a departmental undertaking."40

The MOU is an evaluation system which not only looks at the performance comprehensively, in both commercial and non-commercial criteria in their static and dynamic aspects, that also assists it by making the autonomy and accountability aspects more transparent. It is an effective interface between the Government of India and PE management, for encouraging operational autonomy for the latter corresponding with accountability for results. It is designed to remove frequent interference from government agencies in day-to-day operations of the various units.

To overcome the constraints posed by the changing economic scenario, PE are being encouraged to sign the MOU with the administrative ministries. It is designed to provide more flexibility to PE.

Parliament is no doubt the most effective instrument for making PE accountable. The different ways in which the parliament exercises its control has already been discussed in this chapter. With this respect, the examination of the recommendations of parliamentary; committee can particularly be very effective. The recommendations of these committees in relation to issues of autonomy and accountability have been discussed below:

Emphasising on the importance of autonomy and accountability in PE, the EC, Ist Lok Sabha, in its 16th Report on Administration of Nationalised Industrial Undertaking in 1955 had stated, "In the relations between the State undertaking and the ministry, the former are treated in the same manner as departments and offices of government controlled and supervised by the Secretariat. The State Undertakings have thus become adjuncts to ministries and are treated more or less on the same lines as departments and offices of government controlled and supervised by the Secretariat."41 The Committee deplore this tendency which has an harmful effect on the productive activity of the undertakings as these have been subjected to all the usual redtape and procedural delays common to a government department with serious consequential effect on production.

The 9th Report (1953-54) of the EC, dealing with Administrative, Financial and other Reforms, made a very important recommendation concerning the working of State Enterprises. It recommended that, "The present practice of appointing officers from services either on the Board of Directors or as Managing Directors should be done away with and the Secretary or Joint Secretary of Ministries who are concerned with advising the Minister or Government on matters of policy should not be associated with the day-to-day execution of their policies either in connection with State Undertakings or otherwise. The State Undertakings should be considered as a separate entity from the administrative Departments concerned and should be given full measure of autonomy within the framework of the Statute and a careful watch should be kept to see that the Undertakings is fulfilling its role efficiently and properly."42 Thus the Committee rightly suggested that PE should be given autonomy for their efficient working. However, the government replied, 'The presence of Departmental and Finance Officers as the Boards of State Undertakings help to provide effective supervision ... on behalf of the Ministers in-charge and in conformity with Governments national policies. Such officers are not concerned with the day-to-day management of the Undertakings which rests with the General Managers or Managing Directors who are wholly outside the Secretariat and enjoy a very large measure of discreation.' This reply of the government was found to be unconvincing and misleading. There is no doubt that the autonomy of the corporations is greatly curtailed due to the presence of the officials of the departments.

The CPU, in its 32nd Report in 1987-88 put forward many recommendations regarding the issues relating to Autonomy and Accountability in PE. It observed that the BPE had issued a number of guidelines which had caused confusion and had diluted responsibility as there was lack of clarity with regard to the nature of these guidelines. Thus, the committee suggested that these guidelines should be reviewed to distinguish between those which ought to be regarded as mandatory and the others in which the public undertakings would have flexibility in following them (para 29).

Further, the committee also found out that there were cases where the same government official has been nominated to the Boards of more than two undertakings. As the official cannot do full justice to his work, the committee suggested that government should ensure that the same official should not be appointed as government nominee Director on the Boards of more than two enterprises. A similar recommendation had already been made by the Administrative Reforms Commission in its report (1967) on public sector enterprises which had been accepted. Thus this recommendation had merely been a repetition. The government to this added that this decision though had been accepted but could not be applied rigidly to all situations. In some cases, there may be ministries where, with reference to its officers strength on one hand and the number of PE to be serviced on the other, the same officer has to be on the Board of a number of enterprises. This view of the government was accepted by the committee but it suggested that deviations from this principle should only be made in exceptional cases. The issue of 'balance' between autonomy **and accountability essentially relates to the complexities associated with the need of simultanously maintaining the** 'public' character and promoting the 'enterprise' facet of such undertakings. The battle between the external and internal environmental imperative appears to be an on going one."

The CPU has brought out more than 200 reports relating to different aspects of PE. The approaches of CPU have forged into two directions, one dealing with individual PE and the other with specific issues or policies of management on the basis of a cross-section of these enterprises. The highlight have been different in two cases and have been highly significant in their own ways. CPU is the most well concerned and appropriate of the control mechanisms set up for the PE. It has appropriate distance from PE to be able to remain objective and just adequate resources to be able to take a proper view of the PE to see the extent to which PE is achieving its objectives. Its recommendations over time have arcquired a highly professional character by virtue of the depths explored and issues raised as also the manner in which the problems have been defined and actions on the part of the government called for. The reports of the committee have educative value as they educate those who are interested in the working of government and also the members of the parliament who do not have the first hand knowledge of how undertakings are run.

The Committee form of parliamentary control has great value in improving the performance and profitability of PE. The CPU by combining the functions of the PAC and the EC has been able to do away with some of the handicaps of the two committees. The PAC was criticised on the ground that the scope of the review of the committee was coextensive with audit report and that the efficiency and value of suggestion was lost and reduced when audit report was presented a long time after the transanction was over. Thus as explained earlier, the report of the PAC was essentially post mortem. On the other hand, the EC was criticised that it did not have the technical advice as available to PAC in the shape of C&AG and hence its report lacked depth and penetration.

However, it has also been observed that Parliament has quite discernibly favoured the Auditor General Audit for PE. But the CPU has not been making the fullest use of the audit and its report which it is expected to do on behalf of the Parliament. The complementary role of the Auditor Generals report and the CPU needs to be recognised which is essential to have an effective control over PE and to secure the best accountability of PE.

While looking into the effectiveness of the recommendations of PE, it was observed by the committee that although the committees recommendations were accepted by the government but little was done to implement them. Thus the committee had to reiterate the same recommendations several terms in its reports.

In some cases, the government's reply to the recommendations were vague which defeated the very purpose for which the CPU has been set up. This was observed with regard to the recommendation made by. the committee in holding of Performance Review Meetings by Ministries. The committee wanted to be specifically informed whether there were ministries who have not been holding the Performance Review Meetings regularly during the last three years. In its reply, the government vaguely stated that the Performance Review meetings were being held regularly by most of the Administrative Mionistries and that BPE does not monitor the holding of such meetings.

Further in certain cases, it was observed that where recommendations were accepted, there was delay in implementing them. However, in certain cases, the recommendations have been made effective by initiation of concrete policies by the government. This can be observed from Appendices.....

The success of committee from parliamentary control depends on the value government attaches to these reports. It has been observed that the pointers raised by the CPU, the EC and the PAC over the period of last three decades and a half have not been given adequate attention by the government Several glaring instances of indifference, inefficiency and absence of business prudence have been underlined by the CPU which, if properly studied and implemented in the light of recommendations, would improve performance of the sector as a whole and of individual enterprises in particular too.

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C H A P T E R - IV

PUBLIC ENTERPRISES : PROBLEMS AND NEW QUESTIONS

C H A P T E R - IV

PUBLIC ENTERPRISES : PROBLEMS AND NEW QUESTIONS

Public Sector is a vital instrument in the development of economy. Over the past four decades, massive investments have been made to build a public sector which has a commanding position in the Indian economy. Production of many of these enterprises has expanded, new areas of technology have been explored and a reserve of technical competence in a number of areas have been build up. Keeping in mind, the policy of socialist pattern of society and the objective of equitable distributioin of income and wealth, public sectopr seems to be the only alternative for further development. In this chapter, the entire study has been summarised and concluded. Outlining the problem, measures for improvement and alternative policy initiatives have also been suggested.

At the time of independence, PE existed in the form of Departmental undertakings. Obviously, the management of such enterprises was entirely controlled by a department of the Government. But this form of PE evidenced certain deficiencies and thus subsequently, the form that came up was Public Corporation or Government Company. It was believed that the management of PE required some independence in working so as to enable the enterprises to be managed on the commercial and industrial lines. In the form that came up was Public Corporation or Government Company, there was fairly good degree of independence to the management. But it was questioned whether the management of PE of these forms be given complete independence without any form of control by the government which had the ultimate responsibility in case of failure of these enterprises. It was realised that a proper 'balance' between the two was required for successful conduct of PE. Thus, the corporate form of PE was claimed to be superior to the departmental form as it had freedom from both political control and also from the excessive departmental control. It was believed that as these enterprises would be free from departmental controls in the matters of personnel, finance, purchasing, accounting and budgeting provisions, they would gain in flexibility, initiative and enterprise.

The control over the PE takes various forms such as control by Parliament and Parliamentary Committees Control by government, Ministerial control etc. [as explained in Chapter III]. The problem of parliamentary control of PE arises due to the fact that such enterprises are by definition creation of the state. The relationship between

Parliament and the PE in terms of control depend on the purpose for which PE were created. They were not created on the basis of commercial criteria but also to fulfil certain social objectives. These enterprises are to be instruments of social and economic policy. Thus, the legitimacy of political or Parliamentary control arose from the objectives which were laid down by Parliament. It is quite justified that Parliament which lays down the purpose has not only the right but also the responsibility to monitor that the specified purpose is being fulfilled. The need for control of PE arises to assume public accountability and consistency with the public policies.

Although it is recognised universally that Parliamentary control is essential and justified, it should also be remembered that PE need maximum administrative and financial autonomy for its efficient functioning. Obviously, in a developing country like India, as long as their functioning has a bearing on economic policy of the country, PE cannot be completely autonomous. Autonomy, in Indian conditions would mean freedom from interference in day-to-day operations of the management with a view to implement the policy, laid down either by Parliament or Government, within the knowledge of that policy to those in charge of the PE and subject to discussion in Parliament. Thus, it has to be ensured that the 'synthesis' of the autonomy of state enterprises and parliamentary control over them is achieved and that the democratic control is also maintained. It is important that the pursuing policies of PE conform with the policy of the government. National interest has to be safeguarded without encroaching upon the administrative independence of the Boards and usurping their managerial responsibility. Therefore, for efficient working of the enterprises it is important to evolve a system for working PE, where on the one hand there are adequate checks and protections - that is inevitable - and on the other hand, there is enough freedom given to that enterprise to work quickly without delay. Ultimately judge it by results.'[1]

With regard to this, the Arjun Sengupta Committee's Report on PE has made significant recommendations and in fact, most of the policies which are being implemented at present flow out from these report. This report has argued for greater autonomy for PE and in this connection it has recommended the formation of a holding company. Such a structure would combine the objectives of centralised policy formulation with decentralised operations and management.

The Memorandum of Understanding (MOU) signed by the Government on the PE has benefited the chief executives of the companies the most. It has been decided that the tenure of the Chief Executive would be fixed at the minimum of five years. Moreover, the ministry would not have the authority of sacking or terminating their tenure. The public sector executives would also be given greater financial autonomy where they would be allowed to spend a certain sum without taking approval of ministry concerned.

The EC IIIrd Lok Sabha (1963-64) in its 52nd Report on Personnel Policies of PE had recommended that the incumbents for the posts of Chief Executive should be selected carefully and appointed for a minimum term, say five years, so as to enable them to implement the plans and programmes entrusted to them. This had been repeated by various other reports of CPU but no effort was taken by the government in this direction. It has taken so many years finally for the government to take measures in this respect after wasting such valuable years. At the time of meeting of National Development Council (18-19 June 1990), this problem of delay in implementing the recommendations was emphasised. It was stated, "An accountable management is essential but it must have autonomy to ensure achievement consistent with accountability .... timely completion of projects and avoiding cost over run.... labour relations must be based on worker participation and concern for productivity. These prerequisite for improving efficiency of PE are widely recognised and reiterated on several occasions. What we need is the will to implement them firmly."2

The recommendations made by CPU with respect to the working of BHEL and the action taken by the government towards these recommendations have already been examined in Chapter III. Although, the Committee did make significant recommendations but the success of the committee from the parliamentary control depends on the value government attaches to their reports.

However, in certain cases, it was observed that the Committee made recommendations without taking into consideration the existing situation. When there was a government policy already existing in a particular area, it was superflous for the committee to make recommendations in that area. Further, recommendations were made without analysing the existing situation. With this regard, it was observed that the Committee had pointed out the inclusion of important items in project estimates. But when there is increase in costs of construction and addition to factory building and plants, it is imperative that the project estimates have to be revised. Thus the Committee instead of analysing the revisions of project estimates in a detailed manner just criticised the fact of revisions.

Although, in certain areas, the government has made some of the recommendations effective by bringing about clear cut policies but it has largely been observed that the committee had to reiterate its recommendations again and again. In certain cases, it has also been noticed that vague replies have been provided by the government which showed the seriousness involved on part of the government while dealing with the Committees recommendations. In some cases, when the committees recommendations have been accepted by the government, delay has been undertaken in implementing them. Thus it has been largely observed that CPU, the EC and the C&AG of India have brought issues relating to the public sector but majority of them have gone unnoticed or have been underplayed. Recommendations made by reports of the Solveen Committee on Rourkela Steel Plant .. Mukherjee enquiry Committee on Heavy Engineering Corporation, and several others were relevant not only for the particular enterprises which they examined but also generally for all enterprises. Serious notice and compliance with these recommendations could have sorted out many a problem which ultimately ate into their vitals.3 However, it is still not too late for the government to look into the recommendations of these committees.

By direct intervention of the State in strategic areas, massive investments (about Rs.1,470 billion) has been made over the last four decades to build a Public Sector which would acquire a commanding role in the economy. The achievements of Public Sector in basic and key industries and in strengthening the technological and infrastructural base of the Indian economy have been impressive and the Indian Central PE (245 in number) today accounts for almost 6% of GNP, employ 2.1 million people and operate in almost all spheres of the Indian economy, from providing essential infrastructural goods and services to manufacture of consumer goods and sophisticated engineering products. The share of Public Sector planned investment in the 8th Five Year Plan (1992-97) is Rs.320 billion. 4 With this size of planned investment, the public sector is expected to continue to play a significant role in the Indian Economy. The 1991 Industrial Policy has far reaching socio-economic and political implications which need to be considered.

Public Sector takes the economy from the take off stage and proceed further towards development. It enables the economy to achieve the objective of self-reliance. In a developing country like India, PE are the only alternative for development with social justice.5 Laxmi Narain correctly opines: 'Breaking new grounds, acting as a trial blazer and giv ing a big push to the economy along with the necessary safeguard to the national interest would not have been possible without the existing predominance of PE in the economy".6

PE have multi-dimensional goals. One of which is that these enterprise usually undertake activities which are economically and socially of considerable importance. In the past, they were mainly judged on the basis of infrastructural role played by them. They were primarily concerned with activities which were socially profitable but not privately remunerative. This was the traditional realm of PE and due to this it is not fair to judge the viability of PE on the basis of profitability alone. The question that needs to be answered here is that should the Food Corporation make the same margins of profit as the ONGC? Can DTC which is the lifeline of the people of Delhi, be run purely on profit motivation. Further, taking another example, if BHEL makes a large profit, by implication it means that the State Electricity Boards should increase the tariff of electricity or make losses. As electricity has an overall multiplier effect of 10; the consequences of a higher electricity tariff on the economy can be very well assessed.7 Further, it cannot be expected that they are commercially viable on one hand and also bear the burden of social obligations on the other hand, specially in the absence of or limited budgetary support. Alongwith Five Year Plan has rightly stated, "The public sector has expanded considerably. Its expence and its influence may not be measured just by the size of its contribution to GDP or its share in development, but by the fact that it touches every aspect of life...."8

The CPU has passed severe strictures against the government for what it termed its failure to evolve a policy about the social objectives of public sector undertakings and regulate and streamline the welfare activities being undertaken by several PEs. In its 24th Report on Social Responsibility and Public Accountability of PE, the Committee stated that the time had come to codify and institutionalize various types of social responsibilities. It suggested that the targets for social responsibility to be discharged by a particular unit should be included in the annual plan and the MOU signed with the government stating that the fulfilment of social responsibility should be linked to profitability of an enterprise, the committee recommended that no PE should undertake welfare activities to the detriment of its financial viability. Further, PE which were declared sick or which had been in the red consequently for period of three years should automatically stand exempted from discharging social responsibility, till such time as they come out of the red.

There is a great deal of qualitative difference between the profits of PE and the profits of a private enterprise. And yet comparisons continue to be made between profits made by private enterprise engaged in software consumer oriented industries with profits made by the PE which are in a completely different kind of operation altogether. It is assumed that private sector is more efficient and public sector is evaluated at par with the private sector enterprises. While comparing the profit or loss in the public sector and private sector, the private enterprises which incurred losses and closed down are normally overlooked. As such it is not available to make a comparison between the average profitability of private enterprise that continue in business and that of all PE.

Considering the profitability of PEs, it is significant to note that upto 1970-71, public sector did not generate any net profit and it was for the first time in 1972-73 that they yielded a net profit of Rs.18 crores. In subsequent years, their performance improved gradually and earned a net profit of Rs. 184 crores in 1976-77. However, these enterprises again fell into the red and incurred a net loss of Rs.92 crores in 1977-78. This loss touched the peak level of Rs.203 crores in 1980-81. Since then, there has been signs of recovery. The net profit has increased by 8.9% from Rs.2272.15 crores in 1990-91 to Rs. 2472.75 crores in 1991-92.9

Another aspect in the profitability of PE is to note that the enterprises dealing with crude oil and petroleum products have alone significantly contributed to the increase in the profits of PE. Thus without the contribution from this sector, PE would have been in the red. This further requires that the government looks into their performance individually and not allow the loss making PE to hide behind the general profits of PE.

The above financial position is indeed dismal. The low returns in the PE can be briefly attributed to following two reasons:

(1) PE are usually faced with controlled output prices while input prices continue to increase as result of shortage of power, raw materials, unprecedent and persistent labour trouble etc.

(2) PE were set up to achieve a number of non-commercial objective such as expansion of domestic product, import substitution, generation of employment, the satisfaction of regional demand and foreign exchange earnings. Being promotional and developmental in nature, profitability was not considered as a valid criteria.

Poor Performance also resulted from the heavy bureaucratisation of the PSEs and frequent and unavoidable government interference in their operation. Several studies have been made regarding inefficiency being inbuilt in the very nature of PE. These studies have found evidence that the governments interference is the main reason for their poor performance, and specially point out to the process of decision-making and control which is confusing and conflicting.10 However, if the whole process of industrialisation in India was left to the private sector, India would not have achieved the stride in economic development, in the development of high technological base of the country's; economy, in affecting import substitution, in raising the country's managerial and technical manpower to the level which the country has been able to raise. Indira Gandhi, at the inaugural address of the National Convention of PE, New Delhi on 13th April 1976, stated that "No country in todays world can proceed or even effectively retain its freedom without a strong industrial base. And such a base cannot be built in a newly-freed country without the state initiative. Our public sector in an essential feature and dynamic instrument of socialism."11

How to Improve?

There is definite scope for improvement in the performance of PE and certain policy initiatives have been mentioned later in this chapter.

Privatisation has been applauded on several counts and it is believed by many that efficiency is greater in private sector compared to public sector. But privatisation may create private monopolies which goes against the announced policy of 'socialist pattern of society'. Moreover, a mere transfer of ownership does not imply or ensure higher efficiency level, as is more or less implicitly in the 'privatisation' arguments. The financial viability of the private sector in India is itself questionable as they defend largely on public sector financial institutions.12 Taking the example of the top most in the Indian big business, the Tatas and the Birlas, they secured industrial license for the construction of the two fertilizer plants more than 5 years ago but they did practical nothing to implement it. Thus, it had to be passed on to two co-operative organisation which may be classified in essence as PE. In addition, the Tatas have had to be ousted from partnership with Indian Oil Corporation in the public sector in the setting up of Karnal Refinery which they had been stalling for nearly four years. The question that needs to be raised is whether private big business can be relied upon to deliver the goods in the core sector.

Over the last 20 years, almost all countries have been driven in one direction, necessitating adjustments with the politics of globalisation and pursuing the same policies irrespective of the professed ideologies of their status. In 1970's the same export/import led growth strategies were adopted by communist party led governments (in Poland, Romania, Hungary etc.) military dictatorships (in Argentina, Brazil, Chile, Pakistan etc.) and democratic governments (in India, Lebanon and Indonesia). In 1980's too, many governments implemented the same IMF-imposed adjustment policies. However, differences did exist regarding the intensity with which these policies were pursued. The sweep of the adjusdtment process was so comprehensive that it included countries like Poland and Nicaragua which were not under the pressure of IMF.13

The import led or external debt dependent path of growth has resulted in high capital intensities, contrary to the domestic factor endowments and enormous income concentration in the hands of few. Such paths are internally unsustainable and extremely vulnerable to any adverse change in external environment. South Korea and Taiwan are considered as exceptions and moreover their success is also not related so much to the role of free enterprise and the market as to state intervention. In few countries like Pakistan and Brazil, privatisation is not doing 'too-well' which should serve as an eye opener. Alfred Rappoport in his study on 'The Staying Power of the Public Corporation' thus comments "Public Corporations are vibrant, dynamic institutions-capable of long periods of under performance to be sure but fully capable of self-correction."14

Thus, the objective of national development can be achieved through economic management of the economy in both public and private sector and a high level of coordination between these sectors. This approach would, no doubt, contribute in achieving economic growth with greater economic welfare of the people rather than an exclusive tilt in favour of private sector.

With the present shift towards liberalisation, one needs to identify what would define the power of the state. It was the need to control the nature of the economy, including both its redistributive and self-reliant nature, that gave rise to the concept of commanding heights. Indeed, Nehru, at the Avadi Session of Indian National Congress, said "once you control the strategic points in the country ... you occupy the whole country and similarly, you control the strategic points of your economy..." The basic concept obviously for the PE was to occupy the 'strategic' points of the economy to enable them to control the nature of economic development. However, with the 'opening up' of the economy through IPR of 1991 the power of the State needs to be identified.

Public sector too has spread its tentacles too wide and undertaken tasks which the private sector driven by profit motive can better perform. The operation of PE should be withdrawn from areas like consumer goods textiles, fertilizers where rate of return is negative or less than four per cent of the capital employed. These areas which are non-redeemable are called as black area for the public sector. Public sector should instead concentrate on preserving the efficiency levels in profit-making areas (white area) and improve redeemable areas like coal, transport, power etc. These are operating in the range of 8-12% rate of return (grey areas).15 Further efforts such as cost consciousness, time consciousness and fuller utilisation of installed capacity are not prone to political bias and thus enable effective functioning of PE. Attempts should also be made to encourage Research and Development Industry. On 4th March, 1993, Prime Minister, Narasimha Rao disclosed that its share in Public and Private sector industry is around 23% of the total national investment in Research and Development. In many developed countries, this expenditure in industries is in the range of 50-80%.16 If in India too, attempts were made to increase it, it would essentially help in the improvement of performance of PE and the private sector.

To revive potentially viable sick industrial companies or recommend the closure of totally non-viable companies, the BIFR was set up in January 1987 under the Sick Industrial Companies (Special Provision) Act, 1985 (SICA). PSEs were brought under the purview of the SICA in December 1991. A detailed process of consultation with labour representatives at the national and state level was also started to broaden and strengthen the consensus for rationalisation of these enterprises. As on 31st August, 1993, out of 1,391 crores registered with BIFR 46 were those of Central Public sector enterprises.17 The biggest contribution of BIFR and National Renewal Fund which was established in 1992 to protect the interests of workers to that wherever feasible, efforts are being made to prepare comprehensive revival plans for sick units (positive type of restructuring). It did not just provide financial assistance to sick units, as had been the practice prevailing earlier. If in India too, attempts were made to increase it, it could essentially help in the improvement of performance of PE and the private sector.

In the changed set up after the Industrial Policy, the avenues earmarked for the PE during the Eighth Plan would be as follows as stated by Dr. C.Rangarajan, Member, Planning Commission.

(1) The public sector should make investments in those areas which are infrastructural in native where the private sector participants are not likely to come forward within a signified time-frame.

(ii) The public sector may withdraw from areas where no public purpose is served.

(iii) The principles of market economy should be acepted as the main operative principle by all public sector enterprises unless the commodities and services produced and distributed are for the poorest people.

The process of liberalisation which started during the 80's has come to stay. International competitiveness is becoming crucial to the survival and growth of a company like BHEL, even in the domestic market. Over the last five years, 70% of BHEL's turnover has been achieved in competition with either domesdtic or international suppliers, but now the company has to gear itself for even greater international competition. To meet the future challenges, the company has drawn up a corporate plan for the 90's.

BHEL is one amongst fifteen similar enterprises in the world. The other fourteen belonging to the most economically advanced countries. None of these companies has been able to survive without a protected domestic market and government support for exports by way.

It has already been discussed that the burden of social cost in one form or the other exists for almost all PE. In most of the countries all over the world, the government-owned companies do have to enter into certain areas where the private sector with its focus on pure profits will certainly not be interested. Having accepted that certain social obligations need to be fulfilled by PE, a realistic assessment has to be made whether it is possible for these units to compete with private sector or foreign companies. It needs to be questioned whether competition to possible on an unequal basis. Is BHEL on a level playing field with Asea Brown Boveri (ABB) or other multinational entering the power equipment industry in this country? ABB's German subsidiary has supportive credit to finance the BVK industries in power project in Andhra Pradesh. BHEL as for now has no financial support from its own resource-strained government. Further, the government needs to decide whether it is willing to provide a level paying field for the PE. In the absence of any such firm political will, it is not possible for PE to compete in the domestic or international markets of bilateral aid packages. The government of India expects BHEL to survive without such support, either by way of orders for domestic supplies or by way of export credits to purchaser countries. That too, in a situation where BHEL has to face organisations which are 10 to 25 times larger in size with a highly diversified product profits. These companies would have a definite competitive advantage over BHEL because of their liquidity and economy in size of operations.18

BHEL has adopted a strategy in its corporate plan for the 90's to overcome the problems on account of the existing situation. BHEL hopes to utilise its strength to enhance power generation in the country from existing installed capacities and thereby mop up maximum possible business from old power station through servicing, renovation and life extension programmes etc. Further, attempts would be made to enhance BHEL's presence in sectors other than power such as defence, communications and transportation which would gainfully utilise the facilities and skills available with the company. Vigorous efforts are also being made to enhance physical exports from BHEL despite the glut in the power business world over. Finally, BHEL is approaching the government to give support by way of counter purchase assistance and is seeking EXIM Banks help in extension of buyers credit etc. so that its chances of success in these markets could be further enhanced.

PE serve as a useful purpose in economic regeneration. A.H. Hanson confers - "The public industrial enterprise has become an important and probably an indispensable part of modern life."19 But it is essential that PE are kept delinked from political ideology. To strengthen the functioning of PE, it is necessary to distance the management of PE from the government and ensure greater autonomy of the management of PEE from the government. Further, a comprehensive review of PE could be taken by looking into the problems of PE and the conditions in this failure could be altered. For this purpose, the recommendations of CPU and other parliamentary reports could be examined and recommendations implemented. Despite the deficiencies of PSE it is probably the only citadel of hope which would enhance a developing country like India to move towards self-sustaining growth with the policy of socialist pattern of society in mind.

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APPENDICES

APPENDIX - B

(Vide reply to recommendation at Sl.No.4 Chapter II)
No. 3878/JS(AM)
Government of India
MINISTRY OF FINANCE
(Department of Co-ordination)
New Delhi, the 7th October, 1965

OFFICE MEMORANDUM

SUBJECT: Preparation of Feasibility studies before proposing projects for external assistance.

The Committee on utilisation of external assistance under the Chairmanship of Dr. V.K.R.V. Rao, while examining causes for delay in the aid utilisation in the public sector commented on the dearth of well-conceived projects for which all necessary preparations had been made for placing of orders as soon as foreign exchange became available. While noting that even projects included in the lists to be forwarded to the Aid India Consortium were often not ready for immediate implementation in the event of funds being made available, the Committee had recommended that no project should be proposed for aid unless a feasibility report had been completed. The Government has accepted this recommendation.

2. The Rao Committee had emphasized that feasibility reports should not merely be technological in character but should fully explore the economic aspects. taking the account of the possibilities of economising on the use of

scarce resources such as foreign exchange. The Committee had also observed that feasibility studies must be of a high standard, so that they are accepted by the institutions and countries providing assistance as justification for the acceptance of projects in principal.

3. The need for careful and details investigations in regard to suitability of site, availability of required natural resources, other raw materials, etc. was emp;hasized in this Department's O.M. No. D/347/65/DS(B) dated 7.8.65. The Planning Commission have also circulated a draft memorandum on feasibility studies for public sector projects vide Shri Tarlok Singh's D.O. No.12(4)/65-M&A dt. 26.7.65. On finalisation of the Planning Commission study, a comprehensive office memorandum indicating in detail the scope of feasibility reports will be issued in due course. Meanwhile, the Ministry of Industry etc. are requested to ensure that before any newable, if not a detailed project report, at least a feasibility study which should be drawn up after adequate preliminary investigations and should give evidence that alternative technologies, sizes of plant, locations, product-mix etc. have been considered.

Sd/-
AJIT MOZOOMDAR
JT. SECRETARY

A P P E N D I X - C

(Vide reply of Govt. to the recommendation at Sl.No.24 in Chapter II)

No.2(32)/67-FI

Government of India
MINISTRY OF FINANCE
(Bureau of Public Enterprises)
New Delhi, the 28th July, 1967

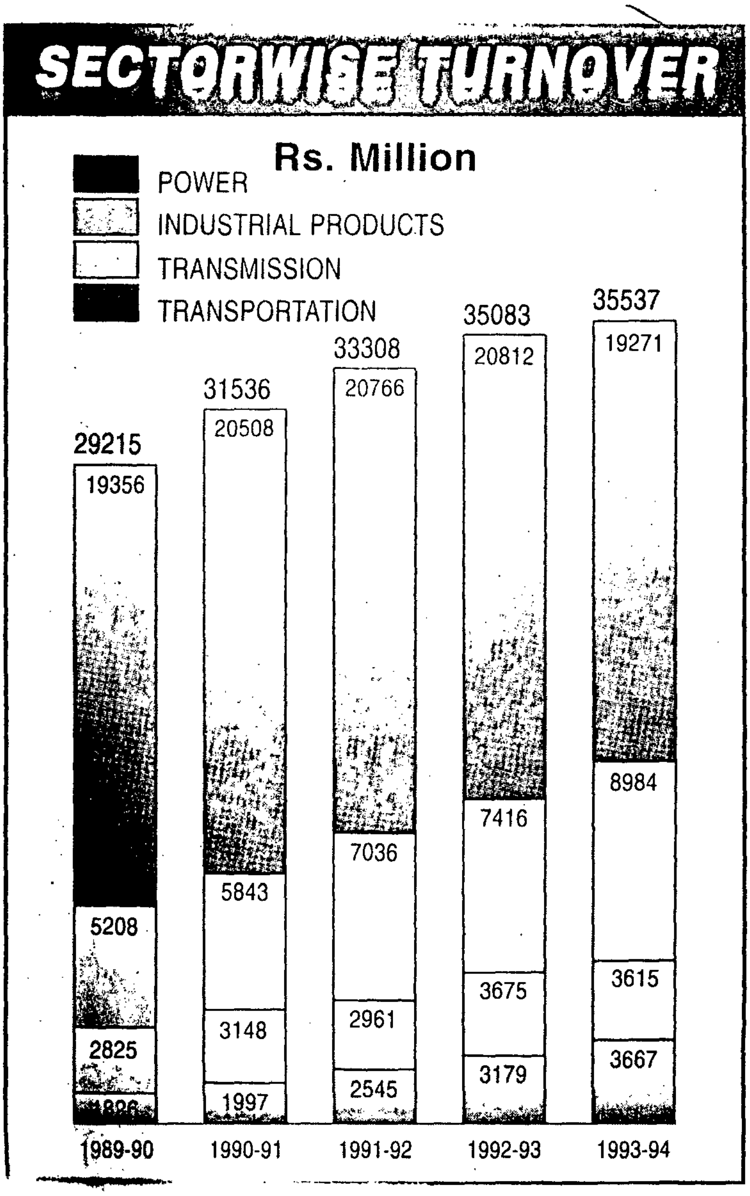
OFFICE MEMORANDUM

SUBJECT: Extension of service/re-employment of superannuated employees in the Public Enterprises

The Undersigned is directed to say that in their 52nd Report on "Personnel Policies of Public Undertakings", the Estimates Committee made the following observations:

"it is noted that despite the decision announced in Parliament in November, 1961 that Government should give broad indication of the principles to be followed by public undertakings in the employment of retired persons, no principles have as yet been laid down. The Committee are unhappy at the inability of Government to implement a decision which they announced over two years ago. It is expected that once a decision is placed before Parliament, it would be acted upon. They hope that this would be done now.

The Committee agree that there might be cases where it is inevitable to re-employ retired technical personnel, in


SECTORWISE TURNOVER
Rs. Million
POWER
INDUSTRIAL PRODUCTS
TRANSMISSION
TRANSPORTATION
29215
19356
5208
2825
31536
20508
5843
3148
1997
33308
20766
7036
2961
2545
35083
20812
7416
3675
3179
35537
19271
8984
3615
3667
1989-90
1990-91
1991-92
1992-93
1993-94

the national interest, to isolated specialised posts for a specific period if persons of requisite knowledge and experience, are not otherwise available. But they do not approve of this practice being followed indiscriminately and retired personnel being employed even for non-technical secretarial jobs. The Committee hope that Governing would keep this aspect in view while laying down broad principles to be followed by public undertakings in the employment of retired personnel."

2. The question of laying down broad principles to be followed in regard to employment of superannuated persons in Public Enterprises has been under the consideration of Government for some time in the light of the principles mentioned above.

3. Cases of extension of service/re-employment of persons in Public Enterprises fall under the following two categories:

(a) Posts, appointments to which are made by Government or require the approval of Government in accordance with the provisions of the relevant Articles of Association/States.

(b) Posts, appointments to which can be made by the competent authorities in the Public Enterprises.

4. The following principles are being followed in regard to grant of extension of service/re-employment to Central Government servants:

(i) Extension of service/re-employment beyond the normal date of Superannuation should be granted only rarely and in really exceptional circumstances.

(ii) In posts not requiring scientific or technical qualifications, 60 years of age should ordinarily be treated as the dead line beyond which no officer should be granted extension of service or re-employed. But when the next person in the line of succession is not of comparable merit, an offer of outstanding merit may be allowed to continue upto the age of 62.

(iii) Extension of service or re-employment should not, as a rule, be granted beyond the age of 62, even in cases of the most outstanding merit, except in the case of scientific and technical personnel. Even in the case of scientific and technical personnel, extension/re-employment beyond the limits mentioned above is not automatic. though. in such cases, where the officer is of outstanding merit and there is a shortage of officers in the p;articular field of specialisation, extension/re-employment may be allowed upto a higher age-limit p;rovided there is none ripe enough to take over the job.

(iv) In the case of honorary appointments - e.g. appointments on the Boards of Directors of Public Sector Undertakings - the limit may be 65 years provided that the appointment is really honorary and does not carry a substantial remuneration.

In order to enable the Ministry of Home Affairs to scrutinise proposals for extension/re-employment beyond the age of 60 years, the Ministries are required to explain the reasons for each proposal in terms of the criteria mentioned above, giving specific details of persons in the line of succession together with their qualifications, the reason why a superannuated person is considered of outstanding merit etc. The character rolls of the officer proposed to be given extension/re-employment and of at least the next two or three officers in the line of succession are also required to be sent.

5. In regard to the cases of the first type, indicated in paragraph 3(a) above, it has been decided that the

principles mentioned in paragraph 4 above and the procedures laid down by the Ministry of Home Affairs in respect of the Central Government servants should be followed.

6. In so far as the cases of the second category, as indicated in paragraph 3(b) above, f4alling within the powers of the Government Companies/Corporations are concerned, the broad principles followed by Government in this respect, as mentioned in paragraph 4 above may be brought to the notice of the Public Enterprises with the suggestion that they may consider whether similar principles could be adopted by them. The administrative ministries, are, therefore, requested to suitably address the Public Enterprises with which they are concerned.

SD/-
M.M. MEHTA
DIRECTOR

TO:

ALL MINISTRIES/DEPARTMENTS OF THE GOVERNMENT OF iNDIA

A P P E N D I X - D

MONOGRAPH ON THE PERFORMANCE STATUS OF CENTRAL PUBLIC SECTOR ENTERP;RISES, JANUARY 1992

(EXTRACTS COVERING SUBSTANTIAL OBSERVATIONS)

As on 31.3.1990, there were 244 Central Public Sector Enterprises (PSEs) owned by the Government of ILndia with a total investment of Rs.99.315 crores. Sixty of the investment is in the core sector industries. Total profits of these enterprises increased from Rs.1172 crores in 1985-86 to Rs. 3782 crores in 1989-90 and the percentage of net profit to capital employed increased from 2.73 to 4.48 per cent during this period. While the oil group of enterprises increased their net p;rofits from Rs.1651 crores in 1985-86 to Rs. 2900 crores in 1989-90, the non-oil group of enterprises showed marked improvement by changing over from a net loss of Rs.479 crores in 1985-86 to a net profit of Rs.882 crores in 1989-90. These enterprises employ about 23 lakh people and generate value added worth Rs.29,000 crores a year.

(2) The disaggregated analysis indicated that during 1989-90, a total of 131 enterprises earned on overall net profit of Rs.5741 crores and 98 suffered a net loss of Rs.1959 crores. It is noteworthy that 85% of the total capital

employed in these 131 PSEs is giving a fairly reasonable rate of return.

(3) Based on a bench mark of 8% rate of return, 84 (64%) of the 131 profit making PSEs, whose contribution to total net profit is about 34% still show room for increasing their profitability. This is the thrust area for MOU policy, since a 5% improvement in cost of production could result in an additional gain of about Rs.5,000 crores for the economy without further investment.

(4) The main reason for poor overall performance of the public enterprises can be traced to the loss making PEs totalling 98 in number. They are numerically large but account for only 14.5% of the capital employed and about 35.6% of employment in the public enterprises. These 98 enterprises are inefficient in more than one sense. First, all these 98 enterprises have shown negative profits in 1989-90. Secondly they have total accumulated loss of tghe order of over Rs.10,000 crores which account for 78% of the accumulated losses of all public enterprises. It may be mentioned that in this group 15 enterprises are monopolies while 83 enterprises are operating in competitive markets. It would be noted that the 15 monopoly public enterprises are functioning in core sectors of economy such as Steel,

Coal, Mines, Shipyards, Transportation Services like DTC, Indian Airlines, etc. and essential trading services such as Food Corporation of India. Solutions to their problems have to be found within the Public Sector System. It is, however, obvious that any policy for reorganisation and restructuring of P:Es has to be directed first towards finding solution to the loss making public enterprises in the competitive sector.

(5) Eighty-three public enterprises operating in competitive markets are the ones who have mainly contributed to the accumulated losses of public enterprises, their share being 79.3%. Of these 83.32 are taken over enterprises from the private sector.

(6) Employment in the taken-over loss making enterprises was 2.4 lakhs in 1989-90 as against that of 3.75 lakhs in all the 83 loss making competitive enterprises. The capital employed in taken-over loss making enterprises was of the order of Rs.648.48 crores whereas the total capital employed in all the loss making enterprises was Rs.2357.40 crores. Thus, the taken over loss making enterprises accounted for a little over 54 of the employment and about 27.5% of the capital employed in the 83 loss making enterprises. The taken over enterprisesw represent mainly those units which

were rendered sick earlier by the private sector, and they were taken over by the Government mainly to protect employment. However, these units have continued to incur losses over a number of years. Efforts made in the past to improve the performance of these taken over enterprises have not produced the desired results so far. It does not, therefore, stand to logic to perpetuate such losses in the future as well.

(7) The annual loss per employee of the chronically sick loss making enterprises worked out to Rs.38714 in 1989-90, the capital employed per employee in these enterprises was of the order of Rs.13093 and the accumulated loss per employee as on 31.3.1990 was of Rs. 2.09 lakhs.

(8) **The two main causes in most of these enterprises are out moded technology and over employment.** These two main causes would apply to other loss making enterprises also, e.gt. Heavy Engineering Corporation, which are not sick as yet. Being in the competitive sector many of the loss making enterprises would have low priority for fresh investments which would naturally flow towards core and socially more relevant sectors.