



*Review Article*

## **An Analysis Of Problems In Public Sector Enterprises In India**

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### **Abstract**

*In the history of planning in the country, over the last six decades, there has been a definite shift in the assigned role of public enterprises in the country through various Five Year Plans from attaining the commanding heights in the national economy and easing out private sector to the opening up, 'liberalization' and 'globalization'. It has been a perennial problem for the policy makers to set the role of the public sector in the Indian economy and it would continue to be so. The organization and management of the public sector enterprises has been on 'trial and error' ever since independence in the country. Initially, the enterprises were organized as departmental undertakings owing to their simplicity of operations and management. Then came a time when the government company form was most prevalent. Following the developments in the international field, particularly in England, corporate form was adopted in India too. And a host of corporation was created, both sectoral and multipurpose as well as development corporations. Lastly, joint ventures came on the scene again taking a cue from the development in the world. The management has all along been a problem to tackle. In the first place, there has been a consistent dearth of managerial skills in the country, both at the initial stages as well in recent past. This paper is aims at:*

- (a) It deals with the problems associated with the Public Sector Enterprises.*
- (b) It deals with the understanding of the causes of the expansion of the Public Sector.*
- (c) Makes an understanding of the limitations attached with the private sector due to which the Public sector has emerged.*

**Key Words:** Public Sector, Private Enterprises

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### **Introduction**

The founding fathers of our republic used the public sector as an essential and vibrant element in the building-up of India's economy. One of the basic objectives of starting the public sector in India was to build infrastructure for economic development and rapid economic growth. Since their inception, public enterprises have played an important role in achieving the objective of economic growth with social justice. At the time of independence, India was backward and underdeveloped – basically an agrarian economy with weak industrial

base, high rate of unemployment, low level of savings and investment and near absence of infrastructural facilities. Indian economy needed a big push. This push could not come from the private sector because of the lack of funds and their inability to take risk with large long-gestation investments.

As such, government intervention through public sector was necessary for self-reliant economic growth, to diversify the economy and to overcome economic and social backwardness.(1)

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The public sector, sometimes referred to as the state sector, is a part of the state that deals with either the production, delivery and allocation of goods and services by and for the government or its citizens, whether national, regional or local/municipal.

The organisation and management of the public sector enterprises has been on 'trial and error' ever since independence in the country. Initially, the enterprises were organised as departmental undertakings owing to their simplicity of operations and management.(3)

Then came a time when the government company form was most prevalent. Following the developments in the international field, particularly in England, corporate form was adopted in India too. And a host of corporation was created, both sectoral and multipurpose as well as development corporations. Lastly, joint ventures came on the scene again taking a cue from the development in the world. The management has all along been a problem to tackle. In the first place, there has been a consistent dearth of managerial skills in the country, both at the initial stages as well in recent past.

The constitution of management boards is the other major problem, which merits attention most. Here, the government burdens the governing board with the civil servants, undermining the principle of autonomy of the enterprises. The management board tilts the balance of decision making on policy matters greatly in government favour and thus reducing the enterprise to, more or less, a department.(4)

### **Objectives**

The public sector aims at achieving the following objectives:

- (a) To promote rapid economic development through creation and expansion of infrastructure
- (b) To generate financial resources for development
- (c) To promote redistribution of income and wealth
- (d) To create employment opportunities
- (e) To promote balanced regional growth
- (f) To encourage the development of small-scale and ancillary industries, and
- (g) To promote exports on the one side and import substitution, on the other.

### **Personal Administration In Public Sector**

The personnel management of the public sector is beset with a plethora of problems which are mostly responsible for its inefficient, uneconomic and below standards performance.

The recruitment to public enterprises is done by individual enterprises or by a central personnel agency for a group of enterprises in a given sector following general guidelines of the government in matters of reservations, etc.(5)

The tendency to second the civil servants to top management is so rampant in the country that it negates the initiative of inbreeding and the insiders are disillusioned, not to talk of their disappointment and disinterestedness.

Remuneration or compensation to the employees is another area, which needs prompt attention. While compensation to top managers is usually high in most of the enterprises with innumerable perks and other amenities and benefits, it is progressively lower in the middle and lower level managements. The performance appraisal in most of the public enterprises is done only as the annual recording of character rolls. These results in the low standards of performance and the efficiency of the enterprises go down progressively.(6)

#### **Role of public sector:**

The public sector has been playing a vital role in the economic development of the country. Public sector is considered a powerful engine of economic development and an important instrument of self-reliance.

The main contributions of public enterprises to the country's economy may be described as follows:

**1. Filling the Gaps in Capital Goods:** At the time of independence, there existed serious gaps in the industrial structure of the country, particularly in the fields of heavy industries such as steel, heavy machine tools, exploration and refining of oil, heavy Electrical and equipment, chemicals and fertilizers, defence equipment, etc. Public sector has helped to fill up these gaps. The basic infrastructure required for rapid industrialisation has

been built up, through the production of strategic capital goods. In this way the public sector has considerably widened the industrial base of the country.

**2. Employment:** Public sector has created millions of jobs to tackle the unemployment problem in the country. Public sector accounts for about two-thirds of the total employment in the organised industrial sector in India. By taking over many sick units, the public sector has protected the employment of millions.

**3. Balanced Regional Development:** Public sector undertakings have located their plants in backward and untraded parts of the country. These areas lacked basic industrial and civic facilities like electricity, water supply, township and manpower. Public enterprises have developed these facilities thereby bringing about complete transformation in the socio-economic life of the people in these regions. (7)

**4. Contribution to Public Exchequer:** Apart from generation of internal resources and payment of dividend, public enterprises have been making substantial contribution to the Government exchequer through payment of corporate taxes, excise duty, custom duty etc. In this way they help in mobilizing funds for financing the needs for the planned development of the country. In recent years, the total contribution from the public enterprises has increased considerably, between the periods 2002-03 to 2004-05 the contribution increased by Rs 81,438 crores on the average.

**5. Export Promotion and Foreign Exchange Earnings:** Some public enterprises have done much to promote

India's export. The State Trading Corporation (STC), the Minerals and Metals Trading Corporation (MMTC), Hindustan Steel Ltd., the Bharat Electronics Ltd., the Hindustan Machine Tools, etc., have done very well in export promotion. The foreign exchange earnings of the public sector enterprises have been rising from Rs 35 crores in 1965-66 to Rs 42,264 crores in 2004-05.

**6. Import Substitution:** Some public sector enterprises were started specifically to produce goods which were formerly imported and thus to save foreign exchange. The Hindustan Antibiotics Ltd., the Indian Drugs and Pharmaceuticals Ltd. (IDPL), the Oil and Natural Gas Commission (ONGC), the Indian Oil Corporation Ltd., the Bharat Electronics Ltd., etc., have saved foreign exchange by way of import substitution.

**7. Research and Development:** As most of the public enterprises are engaged in high technology and heavy industries, they have undertaken research and development programmes in a big way. Public sector has laid strong and wide base for self-reliance in the field of technical know-how, maintenance and repair of sophisticated industrial plants, machinery and equipment in the country. Through the development of technological skill, public enterprises have reduced dependence on foreign knowhow. With the help of the technological capability, public sector undertakings have successfully competed in the international market.

In addition to the above, the public sector has played an important role in the achievement of constitutional goals like reducing concentration of economic power in private hands, increasing public control

over the national economy, creating a socialistic pattern of society, etc. With all its linkages the public sector has made solid contributions to national self-reliance.

### **Causes of expansion of public sector in India:**

**1. Rate of Economic Development and Public Enterprises:** The justification for public enterprises in India was based on the fact that the targeted rate of economic growth planned by the government was much higher than could be achieved by the private sector alone. In other words, the public sector was essential to realize the target of high growth rate deliberately fixed by the government.

**2. Pattern of Resource Allocation and Public Enterprises:** Another reason for the expansion of the public sector lies in the pattern of resources allocation decided upon under the plans. In the Second Plan the emphasis was shifted to industries and mining, mainly basic capital goods industries to be developed under the aegis of the public sector. Thus more resources for industrialization were funnelled through the public sector.

**3. Removal of Regional Disparities through Public Enterprises:** Another important reason for the expansion of the public sector was the need for balanced development in different parts of the country and to see that there were no serious regional disparities. Public enterprises were set up in those regions which were underdeveloped and where local resources were not adequate. Good examples are the setting up of the three steel plants of Bhilai, Rourkela and Durgapur and the Naively Project in Madras which were meant to help

industrialise the regions surrounding the projects.

**4. Sources of Funds for Economic Development:** Initially, state was an important source of funds for development. The surplus of government enterprises could be re-invested in the same industries or used for the establishment and expansion of other industries. Profits of public sector industries can be directly used for capital formation which is necessary for the rapid development of the country.

**5. Socialistic Pattern of Society:** The socialistic pattern of society envisaged in the Constitution calls for expansion of public sector. For one thing, production will have to be centrally planned as regards the type of goods to be produced, the volume of output and the timing of their production. Besides, one of the objectives of the directive principles of the Indian Constitution is to bring about reduction of the inequalities of income and wealth and to establish an egalitarian society. The Five Year Plans have taken this up as a major objective of planning. The public enterprises were used as major instruments for the reduction of inequalities of income and to bring about a more equitable distribution of income in several ways.

**6. Limitations and Abuses of the Private Sector:** The behaviour and attitude of the private sector itself was an important factor responsible for the expansion of the public sector in the country. In many cases the private sector could not take initiatives because of the lack of funds and their inability to take risk with large long-gestation investments. In a number of cases, the government was forced to take

over a private sector industry or industrial units either in the interest of workers or to prevent excessive exploitation of consumers. Very often the private sector did not function as it should and did not carry out its social responsibilities. Accordingly, the government was forced to take over or nationalize the private sector units.

#### **Limitations of public sector**

Despite their impressive role, Public enterprises in India suffer from several problems and shortcomings:

**(a) Overstaffing:** Manpower planning is not effective due to which several public enterprises like Bhilai Steel have excess manpower. Recruitment is not based on sound labour projections. On the other hand, posts of Chief Executives remain unfilled for years despite the availability of required personnel.

**(b) Poor Project Planning:** Investment decisions in many public enterprises are not based upon proper evaluation of demand and supply, cost benefit analysis and technical feasibility. Lack of a precise criterion and flaws in planning have caused undue delays and inflated costs in the commissioning of projects. Many projects in the public sector have not been finished according to the time schedule.

**(c) Excessive Overheads:** Public enterprises incur heavy expenditure on social overheads like townships, schools, hospitals, etc. In many cases such establishment expenditure amounted to 10 percent of the total project cost. Recurring expenditure is required for the maintenance of such overhead and welfare facilities. Hindustan Steel alone incurred an outlay of Rs. 78.2 crore on townships.



Such amenities may be desirable but the expenditure on them should not be unreasonably high.

**(d) Over-capitalization:** Due to inefficient financial planning, lack of effective financial control and easy availability of money from the government, several public enterprises suffer from over-capitalization. The Administrative Reforms Commission found that Hindustan Aeronautics, Heavy Engineering Corporation and Indian Drugs and Pharmaceuticals Ltd were over-capitalized. Such over-capitalization resulted in high capital-output ratio and wastage of scarce capital resources.

**(e) Inefficient Management:** The management of public enterprises in our country leaves much to be desired. Managerial efficiency and effectiveness have been low due to inept management, uninspiring leadership, too much centralisation, frequent transfers and lack of personal stake. Civil servants who are deputed to manage the enterprises often lack proper training and use bureaucratic practices. Political interference in day-to-day affairs, rigid bureaucratic control and ineffective delegation of authority hamper initiative, flexibility and quick decisions. Motivations and morale of both executives and workers are low due to the lack of appropriate incentives.

**(f) Under-utilisation of Capacity:** One serious problem of the public sector has been low utilisation of installed capacity. In the absence of definite targets of production, effective production planning and control and proper assessment of future needs many undertakings have failed to make full use of their fixed assets. There is considerable idle capacity. In

some cases productivity is low on account of poor materials management or ineffective inventory control.

**(g) Lack of a Proper Price Policy:** There is no clear-cut price policy for public enterprises and the Government has not laid down guidelines for the rate of return to be earned by different undertakings. Public enterprises are expected to achieve various socio-economic objectives and in the absence of a clear directive, pricing decisions are not always based on rational analysis. In addition to dogmatic price policy, there is lack of cost-consciousness, quality consciousness, and effective control on waste and efficiency.

#### **Private Sector Limitations – A Way To Public Sector Enterprises:**

The economic development of a country is impossible in the absence of infra-structure facilities. No private entrepreneur has ever afforded to build an infra-structure facilities and it is not a part of the philosophy of the private enterprises to undertake an economic activity just because it is good for the nation. In India, in the first 20 years of planning about 75% was devoted to the creation of basic infra-structure facilities.(8)

The Public sector goes in for huge investments in those areas which are left undeveloped by the private enterprise. Private sector cannot undertake a project involving huge investment and risk with remote chances of profit. In the words of Smt. Indira Gandhi (former Prime Minister) "We advocate public sector for three reasons; to gain control of the commanding heights of the economy, to development in terms of social gain or strategic value rather than primarily on

considerations of profit; and to provide commercial surpluses with which to finance further economic development".

### **Steel Authority Of India Limited**

The question of setting up a holding company for steel and associated input industries was first considered in 1971 by the Government of India. The following two objectives were considered by the Government of India in this direction:

1. Rapid growth of the industrial sector of the economy with the state as a leading agent of the combined growth in India.

2. Ability of the Government to direct investments into areas which are strategic from the point of view of future development.

Based on the above considerations proposal to set up a holding company for steel and associated input industries was approved by the Govt. of India in January, 1972 and finally given shape and form as the Steel Authority of India Ltd. (SAIL) on 24th January, 1973. Further, Indian Iron and Steel Company (IISCI) which came into force in 1952 in the private sector, after successful working for many.

With passing years Govt. of India takes over in 1972 and subsequently became a subsidiary company of SAIL. Consequently upon the public and Steel sector Iron Companies (Restructuring) and Miscellaneous Provision Act, 1978 coming into force w.e.f. 1st May, 1978 the companies dissolved and integrated with SAIL were:

1. Hindustan Steel Ltd.
2. Bokaro Steel Ltd.
3. Salem Steel Ltd.

4. Rourkela Ispat Ltd. ,
5. Durgapur Ispat Ltd.
6. SAIL International Ltd.

### **Bharat Aluminum Company Limited (BALCO)**

The first public sector unit in this industry was Bharat Aluminum Company Limited (BALCO) incorporated on November 27, 1965. The company has been entrusted with the implementation of two massive aluminium projects – one at Ratnagiri in Maharashtra and the other at Korba in Madhya.

#### **(a) Ratnagiri Aluminium Project**

This project is based on the utilization of bauxite deposits located at Udgiri and Dhangarwad in Kolhapur district of Maharashtra estimated at about 85 lakh tonnes and 130 lakh tone respectively. The smelter is located at Ratnagiri with the power supply from the neighboring Koyna hydel station. In January, 1966, this company entered into a technical consultancy agreement with Messers Vereinigte Aluminium Werke of West Germany. The detailed project report submitted by these consultants placed the project cost at Rs.68.88 crores including Rs.18 crores in foreign exchange plus Rs.4.55 crores for the township. On scrutiny, these estimates were found on the high side. The terms of the consultancy agreement were also too rigid to be acceptable. The consultants expressed their inability to modify the agreement. The agreement with them had, therefore, to be terminated.

Later in August, 1969 the BALCO entered into a fresh consultancy agreement for this project with Messers Chemo-complex of Hungary who were already associated with the Korba project of the company, Under

this agreement, the detailed project report was prepared by the National Industrial Development corporation, the Indian engineering consultants of the BALCO, in association with Messers Chemokomplex who also supplied process and operating know-how and guidance from erection to start-up of the plants. The project report for the smelter plant was submitted to the Government on 16th February, 1972 for approval.

It was decided to set up the smelter with the technical assistance OT the USSR ahead of the alumina plant with a view to utilize the expected surplus from the Korba complex. The government sanctioned Ratnagiri project on 29th April, L 1974 at an estimated cost of Rs.78.825 crores.

#### **(b)Korba Aluminium Project :**

The Korba project is based on the bauxite deposits in L the Amarkantak and Phutkapahar areas in Madhya Pradesh and electric power from the Porba Thermal Power Station. According to the Geological Survey of India, the bauxite deposits at Phutakpahar and Amarkantak were estimated at 25 lakh tonnes and 84 lakh tonnes respectively. Survey and prospecting of neighbouring areas taken up by the Geological Survey of India indicate a further reserve of about 110 lakh tonnes. The Korba aluminium project will produce two lakh tonnes per annum of alumina and one lakh tonne per annum of aluminium metal including about 5,000 tonnes per annum of aluminium semis (rolled and extruded products).

Messers Chemokomplex of Hungary, in association with National industrial Development Corporation Ltd., submitted a detailed project report in December,

1966 for the alumina Plant at Korba. An agreement for the supply of detailed engineering know-how, supervision, etc. for the plant was signed by the company in December, 1967 with Messers Chemokomplex of Hungary. All the major contracts for the technological establishments for the alumina plant have been entered into, civil construction work has been completed. The first stream of the alumina plant have been corresponding to 50 per cent of its rated capacity, was commissioned on April 21, 1973.Upto March, 1975 the total expenditure on this project amounted to Rs.36.00 crores. During 1975, performance trials of the alumina plant were successfully completed. The production of calcined alumina during 1974-75 was 55,350 M.T. as against 11,548 M.T. in 1973-74. The target for 1975-76 was fixed at 70,000 tonnes of alumina and 18,000 tonnes of aluminium. The actual production during this year was 69,700 tonnes of aluminium metal. During 1976-77 the production of alumina increased to 1,04,370 tonnes while the production of aluminium was 24,758 tonnes. The installed capacity of Korba smelter was increased to 50,000 tonnes from 25,000 tonnes on 20th September, 1977.

The company during 1977-78 faced power crises and the actual production of alumina was 1,16,460 tonnes while the production of aluminium was 31,841 tonnes. The production during 1978-79 increase 1,26,650 tonnes of alumina and 33,751 tonnes of aluminium. The protraction of alumina during 1979-80 decreased to 1,16,640 tonnes while the production of alumina increased to 35,751 tonnes. During 1990-91 the installed capacity was increased to 1,00,000 tonnes. The



production of the company during 1980-81 to 1984-85 increased steadily.

During 1984-85 the production of alumina was 1,60,640 tonnes while that of aluminium was 87,000 tonnes. The

### **Conclusion:**

Public Sector Enterprises aims to promote rapid economic development through creation and expansion of infrastructure but with the passing rate of over capitalization and poor planning in the respective fields the rate of growth declines. The activities of public sector enterprise are revolving around the balanced development of regional areas of the country and the aim is to remove regional disparities. With the emergence of Private sector enterprises in India the shift had been noticed (specially after the Economic Reforms of 1992) but in

production during 1985-86 was 37,320 tonnes of aluminium Ingots which increased to 36,400 tonnes in 1986-87 while it decreased to 28,040 tonnes in 1987-88 and further to 21,609 tonnes in 1988-89.

passage of time with several limitations attached with the Private sector and the growing scope in Public Sector the shift of interest is again towards the Public Sector.

The Public sector goes in for huge investments in those areas which are left undeveloped by the private enterprise and have started many operations in the areas of Constructive activities. Public Sector has always proved to be working in social welfare and despite of the shortcomings attached with the working of system the overall handling of the affairs are in right direction.

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