Chapter-1

PUBLIC SECTOR IN INDIA (Overview & Profile)

PUBLIC SECTOR IN INDIA

1.1 EVOLUTION

1.1.1 Prior to Independence, there were few 'Public Sector' Enterprises in the country. These included the Railways, the Posts and Telegraphs, the Port Trusts, the Ordinance Factories, All India Radio, few enterprises like the Government Salt Factories, Quinine Factories, etc. which were departmentally managed.

1.1.2 Independent India adopted planned economic development policies in a democratic, federal polity. The country was facing problems like inequalities in income and low levels of employment, regional imbalances in economic development and lack of trained manpower. India at that time was predominantly an agrarian economy with a weak industrial base, low level of savings, inadequate investments and infrastructure facilities. In view of this type of socio-economic set up, our visionary leaders drew up a roadmap for the development of Public Sector as an instrument for self-reliant economic growth. This guiding factor led to the passage of Industrial Policy Resolution of 1948 and followed by Industrial Policy Resolution of 1956. The 1948 Resolution envisaged development of core sectors through the public enterprises. Public Sector would correct the regional imbalances and create employment. Industrial Policy Resolution of 1948 laid emphasis on the expansion of production, both agricultural and industrial; and in particular on the production of capital equipment and goods satisfying the basic needs of the people, and of commodities the export of which would increase earnings of foreign exchange.

1.1.3 In early years of independence, capital was scarce and the base of entrepreneurship was also not strong enough. Hence, the 1956 Industrial Policy Resolution gave primacy to the role of the State which was directly responsible for industrial development. Consequently the planning process (5 year Plans) was initiated taking into account the needs of the country. The new strategies for the public sector were later outlined in the policy statements in the years 1973, 1977, 1980 and 1991. The year 1991 can be termed as the watershed year, heralding liberalisation of the Indian economy.

1.1.4 The public sector provided the required thrust to the economy and developed and nurtured the human resources, the vital ingredient for success of any enterprise; public or private.

1.2 GLOBAL TREND

1.2.1 The Public Sector emerged as the driver of economic growth consequent to the industrial revolution in Europe. With the advent of globalization, the public sector faced new challenges in the developed economies. No longer the public sector had the privilege of operating in a sellers market and had to face competition both from domestic and international competitors. Further, in the second half of the 20^{th} century in the developed economies, the political opinion started swinging towards the views that the intervention as well as investment by Government in commercial activities should be reduced to the extent possible.

1.2.2 Many eminent economists argued that Government must not venture into those areas, where the private sector could undertake job efficiently. Lot of emphasis was laid on market driven economies, rather than State controlled and administered economies. The collapse of socialist economy of the Soviet block convinced the policy planners, around the world, that role of the State should be that of a facilitator and regulator rather than the producer and manager. It may be worth mentioning that, in various countries, the turn towards liberalism including deregulation and decontrol also led to discontent amongst some sections of population as its benefit did not flow down to the weaker and disadvantaged sections of society.

1.2.3 Today, both Public Sector & Private Sector have become an integral part of the economy. There may not be much difference in working of these sectors in advanced countries, but in developing countries, the performance of Public Sector has considerable scope for improvement. It is also observed that Pay packages are almost similar in both sectors in developed countries, but large differences exist in remuneration in the two sectors in developing countries, like ours.

1.3 Economic Scenario and Role of Public Sector in India – General perspective

1.3.1 Government of India, as part of its national agenda to promote growth, increase in efficiency and international competitiveness, has been continuously framing policies for industrial growth, fiscal, trade and foreign investment to achieve overall socio-economic development of the country. As a result of exceptionally severe balance of payments and fiscal crisis in the year 1991, the government decided to shift to a liberalized economy with greater reliance upon market forces, a larger role for the private sector including foreign direct investment.

1.3.2 The Government realized that a strong and growth oriented nation could be built if India grows as part of the world economy and not in isolation. Thus, liberalising and deregulatory steps were initiated from the year 1991 onwards, which aimed at supporting growth and integration with the global economy. Since then, the thrust of New Economic Policy has been on progressive reforms such as reduction in the scope of industrial licensing, reforms in the Monopolies and Restrictive Trade Practices (MRTP) Act, reduction of areas reserved exclusively for public sector, disinvestment of equity of selected public sector enterprises (PSEs), enhancing limits of foreign equity participation in domestic industrial undertakings, liberalization of trade and exchange rate policies, rationalization and reduction of customs and excise duties and personal and corporate income taxes, promoting FDI, investments from NRIs (Non-Resident Indians), extension of the scope of CENVAT, implementing the VAT regime in States, taking steps to switch over to goods & services tax system w.e.f. 01.04.2010, e-governance and simplification of various procedures, rules and regulations etc.

1.3.3 Since the setting up of World Trade Organization (WTO) in the year 1995, as an apex body at the international level, to which India is a signatory, the world trade has definitely grown thereby giving indications that international trade reforms do play an important role in boosting economic development of various countries.

1.3.4 Industrial policy has seen a sea change with most Central Government industrial controls being liquidated. The Central Public Sector Enterprises (CPSEs) were classified into 'strategic' and 'non-strategic'. Strategic CPSEs were identified in the areas of (a) Arms & Ammunition and the allied items of defence equipments, Defence air-crafts and warships; (b) Atomic Energy (except in the areas related to the operation of nuclear power and applications of radiation and radio-isotopes to agriculture, medicine and non-strategic industries); and (c) Railway transport. All other CPSEs were considered as non-strategic. Further, Industrial licensing by the Central Government has been almost abolished except for a few hazardous and environmentally sensitive industries.

1.3.5 The main elements of the present Government policy towards Public Sector enterprises as contained in the National Common Minimum Programme (NCMP) are reproduced below:

i) To devolve full managerial and commercial autonomy to successful, profit making companies operating in a competitive environment

ii) Generally , profit-making companies will not be privatized

iii) Every effort will be made to modernize and restructure sick public sector companies and revive sick industry

iv) Chronically loss making companies will either be sold off, or closed, after all workers have got their legitimate dues and compensation

v) Private industry will be inducted to turn-around companies that have potential for revival

vi) Privatization revenues will be used for designated social sector schemes

vii) *Public sector companies and nationalized banks will be encouraged to enter the capital market to raise resources and offer new investment avenues to retail investors.*

1.3.6 The Government has made a clear commitment to empowering the CPSEs and their managements. It was recognised that public enterprises could not compete effectively with private entrepreneurs without freedom to function and operate commercially. Thus, the concept of Navratna and Mini-Ratna was introduced with greater delegated authority, both financial and managerial. Government has realized that 'Navratnas', 'Mini-ratnas' and other CPSEs are required to grow and deliver on the promises they have made to their stakeholders. Other reforms have also been announced, such as professionalisation of the Boards of Directors of public sector enterprises and evaluation of performance of CPSEs through Memorandum of Understanding (MOU).

1.4 Performance Status

1.4.1 Performance Status: Over the years, operations of CPSEs have extended to a wide range of activities in the manufacturing, engineering, steel, heavy machinery, machine tools, fertilizers, drugs, textiles, pharmaceuticals, petro-chemicals, extraction and refining of crude oil and services such as telecommunication, trading, tourism, warehousing, etc. and a range of consultancy services.

In 2006-07, there were 247 Central Public Sector Enterprises in India, as compared to 236 in 1997-98. The macro view of overall performance of these number of CPSEs in the last 10 years is given in **Table 1.1.**

The following observations are made regarding the performance of CPSEs during the last 10 years:-

a. The capital employed has increased from Rs. 2,49,855 Crores in 1997-98 to Rs.6,65,124 Crores in 2006-07 recording a growth of 266%.

b. Number of loss incurring CPSEs, it has come down from 100 in 1997-98 to 59 in 2006-07.

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c. Turnover increased to Rs.9,64,410 Crores in 2006-07, from Rs. 2,76,002 Crores in 1997-98 recording a net worth growth of 349% increased from Rs. 1,34,443 Crores to Rs.4,52,995 Crores in 2006-07 recording a growth of 337%.

d. The turnover is equal to Rs.9,64,410 Crores in 2006-07, which is an increase of 349% in comparison to 1997-98 (Rs. 2,76,002 Crores). As regards Net worth, it has increased by 337% in 2006-07 in comparison to 1997-98 (Rs. 1,34,443 Crores), and is presently at Rs.4,52,995 Crores.

e. Net profit has increased by 599% in 2006-07 in comparison to 1997-98 (Rs. 13582 Crores), and is currently to the tune of Rs. 81550 Crores.

Table 1.1

(Rs. in crore)*

Particulars	1997-98	98-99	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07
No. of operating CPSEs	236	235	232	234	231	226	230	227	226	217
Capital employed	249855	265093	302947	331372	389934	417160	452336	504407	585484	665124
Turnover	276002	310179	389199	458237	478731	572833	630704	744307	837295	964410
Net Worth	134443	148064	160674	171406	225472	241846	291828	341595	397275	452995
PBDITEP	53062	56495	62212	69287	89550	101691	127320	142554	150262	178083
Depreciation	15856	16768	19942	20520	26360	28247	31251	33147	34848	33138
DRE/Prel.Exps. Written Off	-	-	-	-	-	905	1025	986	992	5843
Profit before int.,tax & EP (PBITEP)	37206	39727	42270	48767	63190	72539	95039	108420	114422	139102
Interest	17990	20025	20233	23800	24957	23921	23835	22869	23708	27069
Profit before Tax & EP (PBTEP)	19216	19702	22037	24967	38233	48618	71144	85550	90714	112033
Tax provisions	5634	6499	7706	9314	12255	17499	22134	21662	24370	34330
Net Profit before EP	-	-	-	-	-	31119	49010	63889	66344	77702
Net (Extra Ordi. Items & Prior Period Adj.)	-	-	-	-	-	-1225	-3933	-1075	-3192	-3847
Net profit	13582	13203	14331	15653	25978	32344	52985	64963	69536	81550
Profit of profit making CPSEs	20279	22508	24633	28494	36432	43316	61606	74433	76382	89773
Loss of loss incurring CPSEs	6697	9305	10302	12841	10454	10972	8522	9356	6845	8223
Profit making CPSEs (No.)	134	126	126	123	120	119	139	138	160	156
Loss incurring CPSEs (No.)	100	107	105	110	109	105	89	79	63	59
CPSEs making no profit/loss No.)	2	2	1	1	2	2	2	-	1	1
Dividend	3609	4932	5455	8260	8068	13769	15288	20718	22886	26805
Dividend tax	464	537	790	842	8	1193	1961	2852	3215	4105
Retained profit	9509	7734	8086	6551	17902	17382	35835	41393	43435	50640

(Source – Public Enterprises Survey : 2006-07)

Note: For 2006-07, information has been compiled for 217 no. of operational CPSEs.

f. The combined Dividend and Dividend Tax has increased by 772% in 2006-07 in comparison to 1997-98 (Rs. 4063 Crore), and is equal to Rs. 30910 Crores.

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1.4.2 Investment pattern: "Investment" defined as aggregate of paid-up share capital, share application money pending allotment and long term loans in CPSEs has grown from Rs.29 crore in 5 enterprises as on 1.4.1951 to Rs.4,21,089 crore as on 31.3.2007. The growth of investment in CPSEs, including enterprises under construction, over the years is given in **Table 1.2**. In addition, the CPSEs have accumulated a large amount of Reserves and Surplus which stood at Rs. 416494 crores as on 31.3.2007.

1.4.3 Turnover and Sales: Cognate group wise turnover of CPSEs for financial years 2006-07 and 2005-06 showing annual growth is at **Table 1.3.** A perusal of the Table shows robust growth in the sales/ turnover of CPSEs during 2006-07. The Electricity Sector had the highest, 19.59 per cent growth, followed by the manufacturing companies with a 16.03 per cent growth and the service companies with a growth of 9.16 percent in 2006-07 (over 2005-06). Amongst the various cognate groups, the growth in turnover of Consumer Goods (88.81%), Tourist Services (54%), Agro Based Industries (42%), Transportation Equipment (30%), Heavy Engineering (29%), Contract and Construction Services (23%), Chemicals & Pharmaceuticals (21%), Financial Services (20%), Power Generation (20%), Steel (18%) and Petroleum (17%) have been significant.

However, the CPSEs under the cognate groups of textiles (-14.37%), Telecom services (-5.07%) and Coal & Lignite (-1.34%) have witnessed a negative growth in turnover during 2006-07 over 2005-06. Overall, there was a 15.18 per cent growth in the turnover of CPSEs during 2006-07 over 2005-06.

1.4.4 Profit and Loss: The Net profit / Loss of CPSEs in the financial year 2006-07 and the year 2005-06 is presented in **Table 1.4.** The Group-wise analysis of aggregate profit and loss shows that except for the cognate groups of 'Fertilizers', 'Chemicals & Pharmaceuticals', 'Medium and Light engineering', 'Agro-based Industries' , 'Textiles', 'Consumer Goods' and 'Contract and Construction services' all the others showed profits during the year 2006-07. Companies under the cognate groups of 'Heavy Engineering' and 'Transport Equipment ' performed better than the rest, with a 117 per cent growth and 111 per cent growth in profit in 2006-07 over 2005-06 respectively in terms of absolute values. High profits were reported by companies under the cognate groups of Petroleum (Rs.33,442 crore), Telecommunications Services (Rs.14,126 crore), Power Generation (12,115 crore), Coal and Lignite (Rs.8,853 crore), Steel (Rs.7,612 crore), Minerals & Metals (Rs. 5246 crore), Financial Services (Rs.2,828), Transportation services (Rs.2,210 crore) and Heavy Engineering (Rs. 2,123 crore). Overall, the grand total of net profits of all the CPSEs put together was Rs. 81549 crore during 2006-07, which indicates 17.28% growth over 2005-06.

Table 1.2

Growth of investment in CPSEs

Particulars	**Total investment (Rs. in crore)**	**Enterprises (Numbers)**
On the eve of the 1st Five Year Plan (1.4.1951)	29	5
On the eve of the 2nd Five Year Plan (1.4.1956)	81	21
On the eve of the 3rd Five Year Plan (1.4.1961)	948	47
At the end of 3rd Five Year Plan (31.3.1966)	2410	73
On the eve of the 4th Five Year Plan (1.4.1969)	3897	84
On the eve of the 5th Five Year Plan (1.4.1974)	6237	122
At the end of 5th Five Year Plan (31.3.1979)	15534	169
On the eve of the 6th Five Year Plan (1.4.1980)	18150	179
On the eve of the 7th Five Year Plan (1.4.1985)	42673	215
At the end of 7th Five Year Plan (31.3.1990)	99329	244
On the eve of the 8th Five Year Plan (1.4.1992)	135445	246
At the end of 8th Five Year Plan (31.3.1997)	213610	242
At the end of 9th Five Year Plan (31.3.2002)	324614	240
As on 31.3.2003	335647	240
As on 31.3.2004	349994	242
As on 31.3.2005	357939	237
As on 31.3.2006	403705	239
As on 31.3.2007	421089	247

Table 1.3

Sl. No.	Cognate Group	Turnover during (Rs. Cr)		% change over the previous year
		2006-07	**2005-06**	
I.	**Mining**			
1.1	Coal & Lignite	34144	34607	-1.34
1.2	Minerals & Metals	14057	12384	13.51
1.3	Crude Oil	65165	54989	18.51
	Total (I)	**113365**	**101980**	**11.16**
II.	**Manufacturing**			
2.1	Steel	49399	41742	18.34
2.2	Petroleum (Ref & Marketing)	515942	441744	16.80
2.3	Fertilizers	10452	9364	11.62
2.4	Chemicals & Pharmaceuticals	1180	975	21.02
2.5	Heavy Engineering	19454	15038	29.37
2.6	Medium & Light Engineering	10649	9560	11.39
2.7	Transportation Equipment	12535	9619	30.32
2.8	Consumer Goods	3133	1660	88.81
2.9	Agro Based Industries	245	173	42.04
2.10	Textiles	517	604	-14.37
	Total (II)	**623506**	**530478**	**16.03**
III.	**Electricity**			
3.1	Generation	41580	34633	20.06
3.2	Transmission	3608	3153	14.43
	Total (III)	**45188**	**37786**	**19.59**
IV.	**Services**			
4.1	Trading and Marketing	94633	81212	16.53
4.2	Transport Services	25842	25528	1.16
4.3	Contract & Construction Services	5472	4453	22.90
4.4	Ind. Dev. & Tech. Consul. Services	3493	3246	7.61
4.5	Tourist Services	1037	671	54.38
4.6	Financial Services	12253	10185	20.30
4.7	Telecommunication Services	39638	41756	-5.07
4.8	Section 25 Companies			
	Total (IV)	**182350**	**167051**	**9.16**
	Grand Total (I+II+III+IV)	**964410**	**837295**	**15.18**

(Source – Public Enterprises - Annual survey of CPSEs – 2006-07)

Table 1.4

Sl. No.	Cognate Group	2006-07 *(Rs .in crore)*		2005-06 *(Rs. in crore)*		% change over the prev. yrs
		Net profit/Loss	No. of CPSEs	Net profit/Loss	No. of CPSEs	
I.	**Mining**					
1.1	Coal & Lignite	8853.71	9	8215.72	9	7.77
1.2	Minerals & Metals	5246.05	10	4.39.23	10	29.88
1.3	Crude Oil	18335.46	3	16770.16	3	9.33
	Total (I)	**32435.22**	**22**	**29.25.11**	**22**	**11.75**
II.	**Manufacturing**					
2.1	Steel	7612.7	6	5307.2	6	43.44
2.2	Petroleum (Ref & Marketing)	151.07.36	8	9411.17	8	60.53
2.3	Fertilizers	-2474.77	8	-1990.17	8	24.35
2.4	Chemicals & Pharmaceuticals	-123.45	14	-436.74	14	-71.73
2.5	Heavy Engineering	2123.34	10	976.54	10	117.43
2.6	Medium & Light Engineering	-29.3	24	-30.89	24	-5.15
2.7	Transportation Equipment	2209.06	10	1044.5	10	111.49
2.8	Consumer Goods	-212.92	12	143.15	12	-248.74
2.9	Agro Based Industries	-1.58	4	-21.31	4	-92.59
2.10	Textiles	-1338.62	5	792.6	14	-268.89
	Total (II)	**22871.82**	**101**	**15196.13**	**110**	**50.51**
III.	**Electricity**					
3.1	Generation	10883.43	7	9078.79	7	19.88
3.2	Transmission	1232.3	2	1009.38	2	22.08
	Total (III)	**12115.73**	**9**	**10088.17**	**9**	**20.10**
IV.	**Services**					
4.1	Trading and Marketing	432.49	18	357.81	18	20.87
4.2	Transport Services	1962.63	12	2527.8	12	-22.36

4.3	Contract & Construction Services	-80.47	11	190.36	11	-57.73
4.4	Ind. Dev. & Tech. Consul. Services	373.44	15	355.65	15	5.00
4.5	Tourist Services	82.64	9	61.84	9	33.64
4.6	Financial Services	2827.62	16	2604.2	16	8.58
4.7	Telecommunication Services	14126.84	4	15226.71	4	-7.22
4.8	Section 25 Companies					
	Total (IV)	**19725.19**	**85**	**20943.65**	**85**	**-19.22**
	Grand Total (I+II+III+IV)	**81549.61**	**217**	**69536.12**	**226**	**17.28**

(Source – Public Enterprises- Annual survey of CPSEs – 2006-07)

Note: In 2006-07, 9 operating units of National Textiles Corp. have stopped operations. Hence, total no. of Operational CPSEs has reduced to 217 from 226 in 2005-06.

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1.4.5 Financial ratios: The performance of CPSEs in terms of financial ratios in the last 10 financial years from 1997-98 to 2006-07 is shown in the **Table 1.5:**

C.E. : Capital Employed **N.W.:** Net Worth

PBDITEP: Profit before Depreciation, Interest, Tax, Extra-ordinary item and Prior Period adjustment.

PBITEP : Profit before interest, Taxes, Extra-ordinary items and Prior Period Adjustment.

PBTEP : Profit before Taxes, Extra – ordinary items and Prior Period Adjustment.

1.4.6 Contribution of CPSEs to the Economy and Central Exchequer: The share of output of CPSEs in GDP at market price stood at 8.23 per cent in 2006-07 and 8.21 per cent in 2005-06. The CPSEs made substantial contribution to the Central Exchequer through payment of dividends, interest on government loans and taxes & duties; the figures are shown in **Table 1.6.**

Table 1.5

Financial ratios of CPSEs

(Rs. in crore)

Particulars	1997-98	98-99	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07
Sales to C.E.	110.47	117.01	128.47	138.28	122.77	137.32	139.43	147.56	143.24	145.0
PBDITEP to C.E.	21.24	21.31	20.54	20.91	22.97	24.38	28.15	28.26	24.42	26.77
PBTEP to NW	14.29	13.31	13.72	14.57	16.96	20.10	24.38	25.08	20.41	24.73
PBDITEP to T.O.	19.23	18.21	15.98	15.12	18.71	17.75	20.19	19.15	17.05	18.47
PBITEP to C.E.	14.89	14.99	13.95	14.72	16.21	17.39	21.01	21.50	18. 33	20.91
PBITEP to T.O.	13.48	12.81	10.86	10.64	13.20	12.66	15.07	14.57	12.80	14.42
PBTEP to T.O.	6.96	6.35	5.66	5.45	7.99	8.49	11.28	11.51	10.12	11.62
Net Profit to T.O.	4.92	4.26	3.68	3.42	5.43	5.65	8.40	8.74	8.44	8.46
Net Profit to C.E.	5.44	4.98	4.73	4.72	6.66	7.75	11.71	12.90	12.09	12.26
Net Profit to N.W.	10.10	8.92	8.92	9.13	11.52	13.37	18.16	19.05	17.03	18.00
Dividend Payout	26.57	37.35	38.07	52.77	31.06	42.57	28.85	31.84	32.56	32.87

(Source – Public Enterprises survey – 2006-07)

Table 1.6

Contribution of CPSEs to the economy

(Rs. In Crores)

Sl. No.	Particulars	2006-07	2005-06	2004-05	2003-04
I.	**On Investment by CPSEs**				
1.	Dividend	18825.68	15200.85	15200.85	9596.45
2.	Interest	1975.08	138.22	731.67	794.32
	Total (I)	**20800.76**	**15339.07**	**15932.52**	**10390.77**
II.	**Taxes and Duties**				
1.	Excise Duty	64026.92	53278.48	44262.34	42963.75
2.	Customs Duty	11048.26	8601.18	10431.95	8408.67
3.	Corporate Tax	31997.93	26046.69	23613.61	17936.29
4.	Dividend Tax	383.12	3242.94	2742.48	1613.00
5.	Sales Tax	2817.25	5026.70	4487.80	3821.62
6.	Other Duties & Taxes	16654.04	13920.87	9132.97	3901.23
	Total (II)	**126927.54**	**110116.86**	**94671.15**	**78644.56**
	Grand Total (I+II)	**147728.30**	**125455.93**	**110603.67**	**89035.33**

The major share of contribution to Central Exchequer by the CPSEs was by way of payment of taxes & duties growth of 85.91% followed by dividend (11.74%) and interest (1.33%).

1.4.7 Revival of Sick CPSEs: The National Common Minimum Programme (NCMP) stipulates a "strong and effective Public Sector, whose social objectives are met by its commercial functioning. Endeavour is to modernize and restructure sick CPSEs and revive sick industry. The chronically loss making CPSEs may be closed down or sold off, after all the employees are paid their legitimate dues. The problem of sickness in CPSEs is addressed by the administrative Ministries/ Departments in the Government by evolving appropriate need based strategy concerning a particular CPSE. Some of the strategies for restructuring / revival of CPSEs including sick units on long-term basis include:-

- Revival through the process of BIFR;
- Financial restructuring;
- Formation of joint venture by induction of partners capable of providing technical, financial and marketing inputs; and
- Organizational restructuring and manpower rationalization through approved Voluntary Retirement Scheme (VRS).

1.4.8 In order to combat industrial sickness particularly with regard to the crucial sectors, where public money is locked up and for timely detection of sick and potentially sick industrial companies, Sick Industrial Companies Act (SICA) was extended to public enterprises in 1993; enabling sick public sector enterprises to be referred to a quasi judicial body - Board for Industrial & Financial Reconstruction (BIFR), to take appropriate measures for revival and rehabilitation of potentially sick industrial undertakings and for liquidation of non-viable companies.

1.4.9 Under the Sick Industrial Companies Act (SICA), 1985, a company is termed sick if at the end of any financial year, it has accumulated losses equal to or exceeding its entire net worth. Such industrial company is required to be referred to BIFR for formulation of rehabilitation/ revival plan. Government set up a Board for Reconstruction of Public Sector Enterprises (BRPSE) in December, 2004 to advise the Government inter-alia on the measures to be taken to restructure/revive CPSEs, including cases where disinvestments or closure or sale are justified. The concerned administrative Ministries are required to refer the proposals of their CPSEs identified as 'sick' for consideration of the BRPSE.

1.4.10 Human Resource Management and Personnel Policy: Effective utilization of Human Resources is one of the most important factors for the efficient and profitable functioning of an organization. It has special significance in the management of public sector enterprises. CPSEs employ a large workforce in different disciplines and the successful operation of these enterprises very much depend on the skills and capabilities of the workforce. Out of around 16 lakhs manpower (as on 31.03.07) deployed presently in CPSEs, about 3.65 lakh are in the supervisory and managerial cadres which represent about 22.12% of total manpower. In 2005-06, the aggregate amount paid towards salaries & wages and other benefits including Bonus was to the tune of Rs.45,625 crores; and the cost of production was Rs.7,35,964 crores. Accordingly, the average of Payment to employees as percentage of Cost of production is around 6.2%; out of which the lowest percentage is of Petroleum group i.e. 1.28% and the highest percentage is of Coal and Lignite group i.e. 39.91. The **Table 1.7** shows the number of employees employed by the CPSEs, their total emoluments as well as per capita emolument during the last 10 years. As can be seen from Table 1.8, the number of employees during the period has reduced from 19.59 lakhs in 1997-98 to 16.14 lakhs in 2006-07, which is a reduction of 17.61%. On the other hand, the total emoluments have increased from Rs.25,385 crores in 1997-98 to Rs.52,574 crores in 2006-07, which is an increase of 107%. Similarly, the per capita emoluments have increased from Rs.1,29,582 in 1997-98 to Rs.3,25,738 in 2006-07, which is an increase of 151%. The Emoluments as percentage of Turnover has decreased from 9.19% in 1997-98 to 5.45% in 2006-07.

1.4.11 Categorization: The public enterprises are categorized into four Schedules namely ‘A’, ‘B’, ‘C’ and ‘D’, based on various quantitative, qualitative and other factors. The quantitative factors are: investment, capital employed, net sales, profit before tax, number of employees, number of units and value added per employee. Qualitative factors are: national importance, complexities of problems, level of technology, prospects for expansion and diversification of activities and competition from other sectors, etc. while the other factor relates to the strategic importance of the corporation. The pay scales of Chief Executives and full time Functional Directors in CPSEs are determined as per the schedule of the concerned enterprise.

As on 31.3.2007, there were 247 CPSEs. Out of 247 there are 54 Schedule 'A', 77 Schedule 'B', 48 Schedule 'C' and 06 are Schedule 'D' enterprises. The rest have not been categorized. The details of the Board level posts (whole time) as in the year 2006-07 are given in **Table 1.8.**

Table 1.7

Number of employees employed by the CPSEs

Year	Employ. (in lakhs) (excl. Casual & daily rated workers)	Emoluments (Rs. in crore)	Emoluments (As % of Turnover)	Per Capita Emoluments (Rupees)
1997-98	19.59	25385	9.19	129582
1998-99	19.00	26254	8.46	138179
1999-00	18.06	30402	7.81	168339
2000-01	17.40	38223	8.34	219672
2001-02	19.92*	38556	8.05	193554
2002-03	18.66	42169	7.36	225986
2003-04	17.62	43919	6.96	248481
2004-05	17.00	48629	6.53	286053
2005-06	16.49	46851	5.59	284123
2006-07	16.14	52574	5.45	325738

(*2001-02 the number of employees have increased due to corporatisation of DOT)

Table 1.8

Schedule	Chief Executives	Whole-time Directors*
Schedule A	54	201
Schedule B	77	181
Schedule C	48	67
Schedule D	06	-
Total	**185**	**449**

*(Directors draw salary one scale below the Schedule of the company)

CPSEs have been classified based upon the power vested in the Board of Directors of the company as Navratna, Miniratna (Category I & II) & others including profit making, loss making etc. On 31.3.2007, number of CPSEs in this classification has been given in **Table 1.9.**

Table 1.9

Category	No. of CPSEs As on 30.5.2008
Navratna	16
Miniratna, Category I	41
Miniratna, Category II	13
Profit making	156
Loss making	59
Listed Companies	45
Non-listed Companies	202
Section 25 & Under Construction	32

1.4.12 Composition of the Board of Directors: The guidelines on professionalisation of Boards of Directors issued in 1992 provide that outside professionals should be inducted on the Boards of CPSEs in the form of part-time non-official Directors and that the number of such Directors should be at least 1/3rd of the actual strength of the Board. In the case of listed CPSEs headed by Executive Chairman, the number of non-official Directors (independent Directors) should be at least half the strength of the Board. The guidelines also provide that the number of Government Directors on the Boards should not be more than one-sixth of the actual strength of the Board subject to a maximum of two. Apart from this, there should be some functional Directors on each Board, whose number should not exceed 50% of the actual strength. For 2006-07, the data for all CPSEs related to number of CMDs, Chairman, Directors (Functional & Independent) & Nominee Directors etc have been given in **Table 1.10.**

Table 1.10

Designation	No.
CMDs	122
Chairman-Full Time	4
Chairman-Part Time	42
Managing Directors	33
Functional Directors	371
Independent Directors	306
Government Nominee Directors	474

1.5 DEVELOPMENTS IN RECENT YEARS – A CRITICAL OVERVIEW

1.5.1 Social & Economic Development: Independent India has exhibited more impressive price stability than most developing economies. The inflation rate was, on an average, in the single digit for almost all the years since Independence. On the growth rate, the annual GDP growth in the decade of 1950s was 3.6 percent, in the 1960s it was 4.0 percent, in 1980s it was 5.6 percent and in the 1990's (excluding the Gulf war crisis year 1991-92) it was 6.3 percent. In the new millennium, the growth rate accelerated to 6.9 percent; and during the period from 2003-04 to 2006-07 it has averaged 8.6 percent.

The changes in the social and economic developments that have taken place in the country since India became independent are quite substantial. The total outlay of the 1st five year plan (from 1951-56) was Rs.2069 crores, which has increased to Rs. 66632 crores for the 10th five year plan (2002-07). The population of India in the year 1951 was around 36 crores and has increased to 103 crores as per the 2001 census. The head count ratio of persons below poverty line has declined from the level of 54.9% in the year 1973-74 to 36% in 1993-94 (the latest year for which the NSS data was available). The decline in the urban poverty level from 48% to 36% is significant as it coincides with the period of rapid urbanization.

1.5.2 During the period since 1997, successive governments have carried forward the country's economic reforms in Industrial , Trade and Financial sectors. The

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approach of the Government has been to gradually move towards comprehensive re-structuring of the economy to reap the benefits of the fast changing global business environment. Some of the major changes during the past decade from 1.1.97 to 31.12.06 that have significantly contributed to economic reform in the country are:

a. The Foreign Exchange Management Act (FEMA), 1999 replaced the Foreign Exchange Regulations Act (FERA), 1973 with the objective of 'facilitating external trade and payments' and 'promoting the orderly development and maintenance of foreign exchange market in India' including introduction of convertibility of rupees on current account.

b. Further, the enactment of Fiscal Responsibility and Budget Management (FRBM) Act in 2003 marked a significant reform initiative taken both by Central Government and some States in the context of fiscal responsibility.

c. The Insurance Regulatory and Development Authority Act, 1999 is a major milestone in liberalisation as it opens the way to private entry into the insurance business, which has been a Government monopoly.

d. New Telecom Policy was implemented in 1999 to facilitate India's vision of becoming an IT superpower and develop a world class telecom infrastructure in the country.

e. Replacement of MRTP Act, 1969 by Competition Act of 2002, in view of the policy shift from curbing monopolies to promoting competition. The Competition Act was enacted that marks a conscious departure from the previous Monopolies and Restrictive Trade Practices Act (MRTP). The Competition Law aims at doing away with the rigidly structured MRTP Act and is more flexible. Also, the regulatory authority under the Act i.e. `Competition Commission of India' is being set-up with the aim of centralizing under one umbrella all controls to eliminate the negative aspects of competition.

f. Electricity Act, 2003 was enacted to create competitive environment which will result in enhancing quality and reliability of service to consumer.

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g. The Foreign Trade Policy was notified for the year 2004-2009 incorporating the Export and Import Policy for the year 2002-2007; several other initiatives have been taken for Export Promotion.

h. The Foreign Direct Investment policy has been reviewed and liberalised to promote FDI in various sectors.

i. Tax reforms have taken place in a major way including rationalization of both direct and indirect tax laws. Customs tariffs have been lowered and Service tax net is being widened. The input tax credit for both excise duty and service has been streamlined. One of the important tax reforms has been introduction of State-level Value Added Tax to replace the Sales Tax. Introduction of Goods & Services Tax regime to be effective from 01.04.2010 is underway.

j. A number of Rules and Regulations have been issued by the Securities and Exchange Board of India (SEBI), to develop the capital market on healthy lines and protect the investors' interests in securities.

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k. Special Economic Zones (SEZs) are being set up to enable hassle free manufacturing and trading for export and to free the industry from the plethora of rules and regulations governing imports and exports.

1.5.3 If one looks at the changes that have taken place in the country during post-liberalization period when the New Economic Policy (NEP) of 1991 was announced, and more particularly from 1997 onwards, it becomes clear that India has opted for an open economy with greater reliance upon market forces. In a nutshell, global competition has ended Indian industry's monopoly, in local market and broken the shackles of 'License Permit Raj'.

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1.6 NEW OPPORTUNITIES

1.6.1 In the competitive industrial scenario, one of the key components to increase the bottom line in the globalized economy is to find out how an enterprise leverages capability at a global level for procurement, sourcing and delivering all its products and services across markets far more rapidly and takes advantage by cross leveraging between various markets. In this context, Mergers & Acquisitions (M&A) have gained importance during the past few years and a storm of mergers of huge values have been notched-up. In response to the growing business and to release productive energies and to promote creativity of Indian businesses, the regulators have also issued guidelines to facilitate smooth transactions as well as making business restructuring tax neutral. Business consolidation of market share, synergies of operations, reduction of time and money in entering the domestic &

foreign market, reducing uncertainty of market share, to meet end-to-end solution needs, buying out competition, realization of stock market valuations, create value for shareholders, etc. are some of the reasons leading to spur in M&A activities within India as well as promote overseas acquisitions by Indian companies.

1.6.2 Integration of Indian economy with global markets has thrown up new opportunities and challenges. Some of the public sector enterprises with strategic vision are actively exploring new avenues and have increased their activities to go in for mergers, acquisitions, amalgamations, takeovers and for creating new joint ventures. The Navratna CPSEs, which enjoy greater autonomy to incur capital expenditure and enter into joint ventures in India and abroad should avail of these opportunities for rapid growth overseas. Acquisitions, JVs and green field projects in Petroleum Sector have already taken place and are under active consideration in Power, Coal and Mining Sectors.

1.6.3 Another important initiative towards re-structuring of pubic sector enterprises is ‘Disinvestment’ in select CPSEs. The Statement of Industrial Policy of 1991 stated that in the case of selected enterprises, part of Government holdings in the equity share capital of these enterprises will be disinvested in order to provide further market discipline to the performance of public enterprises.

1.6.4 Some CPSEs have been such as Videsh Sanchar Nigam Ltd. (VSNL), Indian Petrochemicals Corporation Ltd. (IPCL), Maruti Udyog Limited (MUL), CMC Ltd., etc. have been privatized. In addition, there are CPSEs which have been acquired by other CPSEs by way of disinvestment and open bidding such as acquisition of IBP by Indian Oil Corporation Limited. There are also instances of acquisition of private firms by CPSEs as in the case of MRPL, which was a joint sector company and became a CPSE subsequent to acquisition of its majority shares by ONGC. There are also cases of domestic offerings, GDR listing, offloading of some equity shares in the market or to another organization, and forming joint-ventures, by CPSEs.

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1.7 LABOUR REFORMS

1.7.1 The first National Labour Commission, which had submitted its report in 1969, had promised a lot in the direction of social security, social welfare, wages, social insurance, industrial relations, industrial adjudication, collective bargaining, etc. In sequel to the recommendations made in the report of the first National Commission on Labour, a series of enactments were passed. After a gap of around 30 years, the Second National Labour Commission (NLC) was constituted to suggest rationalization of existing laws relating to labour in the organized sector, and to suggest an umbrella legislation for ensuring minimum level of protection to the workers in the unorganized sector. The report was submitted in the year 2002 to the Government. The need for setting up of Second NLC was felt due to vast changes occurring in the economy during the last three decades particularly in the post-liberalization period.

1.7.2 The National Common Minimum Programme (NCMP) of the present Government also states that labour laws other than Industrial Disputes Act, 1947 that create Inspector Raj will be re-examined and procedures harmonized and streamlined. More emphasis is being laid down to build effective labour laws, which reflect the need for a change in the mindset and the need for major reforms to address the issue of globalization.

1.8 HR PERSPECTIVE

1.8.1 Human Resources (HR) is one of the most complex and challenging fields of management, as it deals with the people dimension in business management. The biggest challenge now being faced by CEOs is HR as it plays a strategic role in the growth of an organization and thereby maximizing returns on investment. The HR management's role is required to be perceived as **business strategic partner** in the organization and it has to identify its key role with clarity in the context of organizational working as well as contributor to organization's strategy. Strategic HR practices help the organization in achieving long-term and short-term goals through optimum utilization of human resources. This involves the development of human resources objectives, which are in alignment with the enterprise objectives. Thus, there is a new agenda in the role of HR and it has to come out from its traditional role of managing HR alone.

1.8.2 Pay-for-Performance philosophy has become an emerging HR trend, which increases organizational effectiveness by aligning employee effort to the organizational mission. The rating of accomplishment of individual, team or

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business groups and having distinct differences in performance incentives between good performers and non-performers send clear messages to the workforce that deliverance of results affects everyone in the organization.

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1.8.3 The changes in industrial scenario have sent clear signals to the public sector to re-visit their Human Resources (HR) Management practices and formulate HR strategies with focus on profitability on long-term basis. To achieve this, the thrust has to be on competitive HR policies & practices. HRM should now focus to build enterprises that change, learn, move and act faster than those of its competitors; and it is time to build competitive and not merely comfortable public sector enterprises. HRM of public sector enterprises is also required to keep pace with the changing legal and governmental regulations.

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1.8.4 Human resources play an important role in development of businesses and is the main differentiator of excelling companies from other companies. In view of the growth in business, expanding market, high demand by consumers and change in technology, the biggest challenge being faced during the last decade by companies has been the need to meet their requirement for talented people. The rush for hiring of people is being seen in all the sectors such as IT & IT enabled services, infrastructure, engineering, banking, airline, hospitality, biotech, medical, retail, etc. The demand-supply equation for talented professionals is heavily skewed in favour of the former; and as a result both attraction and retention have emerged as major challenges for HR professionals. The problem is not only limited within the country but it has become a global phenomenon, and even the MNCs and global recruitment firms are hiring people from India to meet their demands. However, in recent times, one can also see that the trend is gradually reversing and now expatriates are being assigned to or hired for Indian operations, and even a lot of expatriate Indians working abroad are coming back because India has now a lot to offer. The future outlook confirms that global nomad employees, who move from country to country on varying assignments will become a common feature.

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1.8.5 In public sector, HR practices and its management have a long way to go in order to achieve a professional and competitive HR standards. There is lot to be done by HR in terms of identifying & nurturing talent; creating a performance-driven culture; and bringing about changes in the mindsets of employees at all levels so that all of them aim at providing value to customers. Multiple roles are, thus, required to be played by HR professionals such as business strategic partners, the change agents, the consultants, the service-providers, etc.

1.8.6 The public sector enterprises have always been considered as 'model employers'. They used to recruit the brightest people in a very fair selection process and generally through open competition. The jobs in public sector always used to be the most preferred, by educated middle-class, and the talent was generally given its due respect in the public sector. However, the situation has changed in the last 10 years. Earlier there was little opportunity available for professionals to migrate from one organization to another, but during the last decade ample opportunities have been opened up for them to leave the organization. To add to this, the demand for talent is not confined to any particular sector of industry but the professionals are moving across sectors. As a result, public sector is under huge pressure in terms of attracting and retaining talent.

1.9 PAY REVISION IN CPSEs

1.9.1 The right approach requires that employees or the work force be treated as resource and thus, the relationship between the management and employees should be valued in high esteem in an organization. It is high time that CPSEs should re-orient themselves in the matter of human capital and they must ascertain motivational methods for both tangible and intangible employees. It is in this context that periodic revision of remuneration in the CPSEs is necessary. The Salary revision for the Executives & Non-Unionised Supervisors is done by the Government of India through the Department of Public Enterprises (DPE), the nodal Department for CPSEs.

1.9.2 For the revision of salary of workmen, DPE issues broad guidelines to be followed by the CPSEs. The final settlement is arrived at by negotiation with the unions of workmen of the CPSEs. The Board of Directors of every CPSE is empowered to negotiate with the unions. The last wage negotiation between the managements and the workers' unions was from 1.1.1997, for 10 year periodicity. The guidelines for the 7th round of negotiations had been issued vide DPE OM dated 09.11.2006.

1.9.3 Pay revision of employees under CDA Pattern in CPSEs

CDA pattern pay scales are applicable to some of the clerical staff, unionized cadres and executives of 69 CPSEs, who were on the rolls of these companies upto 31.12.1988 and were in receipt of CDA pattern pay scales during that time. A High Power Pay Committee (HPPC) was appointed by the Government in pursuance of the Supreme Court order dated 12.3.1986. The HPPC submitted its Report to the Government on 24.11.1988. Its recommendations have been implemented in these CPSEs. In pursuance of the Supreme Court order dated 3.5.1990 read with the subsequent order dated 28.8.1991, IDA pattern and related scales of pay have been introduced in these CPSEs with effect from 1.1.1989. Out of 69 CPSEs (covered under HPPC), at present there are 58 CPSEs, which are following both CDA and IDA pattern scales of pay. As per the recommendations of the High Power Pay Committee and Supreme Court orders thereon, the employees following CDA pattern of scales of the Central Public Sector Enterprises would get pay revision only as and when similar changes are effected for the Central Government employees. Accordingly, the recommendation of 5th Central Pay Commission w.e.f. 1.1.1996 had also been extended to the employees of CPSEs following CDA pattern of scales. In addition, the employees of CPSEs following CDA pattern have also been allowed the benefit of merger of 50% of DA with basic pay w.e.f 1.4.2004. This benefit has been allowed to the employees of CPSEs that are not loss making and are in a position to absorb the additional expenditure on account of merger of DA with basic pay from their own resources without any budgetary support from the Government.

1.9.4 Pay Revision Committees

The First Pay Revision Committee was appointed vide Resolution dated 10th December 1996, under the Chairmanship of Mr. Justice S. Mohan (Retd Judge, Supreme Court) with three Members and a Member Secretary, to examine the structure of pay, allowances, perquisites and benefits for the Board level, Below Board Level Executives & Non-Unionized Supervisors, taking into account the total package of benefits available including non-monetary ones and suggest changes therein which may be desirable and feasible. The Committee was requested to make its recommendations initially within a period of six months which was further extended upto 31.10.1998 after taking into account the Report of the Vth Central Pay Commission.

1.9.5 The 2nd Pay Revision Committee has been constituted by the Department of Public Enterprises (DPE) vide Resolution dated 30th November 2006, under the Chairmanship of Mr. Justice M. Jagannadha Rao, with 4 Members and a Member Secretary **(Annex – 1.1**). The Committee has been requested to submit its recommendations to the Government within a period of 18 months. While finalizing its report, the Committee will also take into account the report of 6th Central Pay Commission. Dr. Ramesh Chandra Panda, the then Secretary, Department of Public Enterprises was Ex-officio member till his superannuation on 29.2.2008. Thereafter, Shri R. Bandyopadhyay, assumed the charge of Secretary, Deptt. of Public Enterprises on 03.03.2008 and became the Ex-officio member of the Committee.

1.9.6 In view of the present scenario and the challenges ahead for the public sector and in particular the competition from the Private Sector and MNCs, the Second Pay Revision Committee is conscious of its role to recommend a comprehensive pay package to the CPSEs so as to improve efficiency, productivity & economy through rationalization of organizational structures, systems and processes. The Committee also emphasise the need for functional and operational autonomy for the CPSEs along with the need to improve transparency, discipline, accountability, assimilation of technology and research and development. The committee has taken into account current categorization of CPSEs such as Schedule ‘A’, ‘B’, ‘C’ and ‘D’ and their status as Navratna, Miniratna, loss / profit making CPSEs, and also CPSEs referred to BIFR or BRPSE as well as CPSEs under Industrial DA / Central DA pattern.

1.9.7 The Committee also views that its recommendations should harmonize the functioning of the CPSEs with the demands of the emerging national and global economic scenario. The Committee has kept in mind the other relevant factors like totality of benefits available to the employees, need of rationalization and simplification thereof, prevailing pay structure and retirement benefits available, as well as economic conditions in the country, need to observe financial prudence in the management of CPSEs, resources of the CPSEs and the demands thereon, on account of economic and social development and the global economic scenario and competitive environment.

1.9.8 While making recommendations, the Committee has kept in mind the general principles, financial parameters and conditions, which should govern the desirability, feasibility and continuation/modification of the Productivity Linked Incentives Schemes and Performance Related Payments.

1.9.9 The 2nd Pay Revision Committee has interacted with many CPSEs, Officers Associations of various CPSEs and other agencies and consultants including IPE, Department of Atomic Energy, Department of Defence Production, PESB, BIFR and some private enterprises during its sittings at different locations.

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