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# REINVENTING THE PUBLIC SECTOR

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# Contents

1. The Engine of Development 1

2. Who Performs Better 6

3. Setting Management Benchmarks 13

4. Building Techno-Management Prowess 18

5. The Corporate Citizen 22

6. In Search of a New Direction 25

7. Ad hoc versus Holistic Policy 31

8. Towards a New Rendezvous 44

9. The Professional Enterprise Model 50

# 1

# The Engine of Development

## The Paradigm Shift

The pendulum has swung to the other extreme. The existence of the public sector in India, as worldwide, is under constant and repetitive onslaughts. In the post-Second World War period, it was considered a major instrument of planned economic development. There is now a concerted and pervasive move to dismantle it. Since the early 1980s, the demand for the state's exit from the sector has been relentless. The movement was accentuated by the collapse of the Soviet-type command economies. In an environment of globalisation, orchestrated by the WTO (World Trade Organisation) regime, India could not bypass the worldwide trend.

In consonance with the contemporary economic philosophy and the vision of Jawaharlal Nehru, the government assumed the direct responsibility for initiating, sustaining and promoting country's economic development. The Industrial Policy Resolution of 1956 was a landmark, which guided, subject to minor adjustments, the development strategy until 1991. It was given a boost when Prime Minister Indira Gandhi nationalised 19 private sector banks in 1969.

A well-designed and articulated policy sought to impart the public sector a role of strategic importance in industry and infrastructure. There was a tacit and expressed recognition that, given the economic scenario (of the 1950s) and the dimensions of the task of extricating the nation from the economic morass of poverty, growth and social equity could be achieved only through the medium of public investment. It was widely believed – and accepted – that the

private sector as it then existed had neither the wherewithal in terms of financial resources or management nor the patience to invest in mega and long-gestation projects.

To operationalise what was styled as mixed economic model, major public investment allocations were made in power generation and distribution, coal, petroleum, atomic energy; basic metals like steel, aluminium, copper, zinc and lead; fertilisers and petrochemicals; machine-building and machine tools, engineering and electronics; shipping and civil aviation. The public sector also entered the services sector, engineering and consultancy. These entries were meant to fill in the gaps in the processes of accelerated development and were attempts aimed also at supporting, supplementing or supplanting the activities of the private sector.

The sector's role was extended later to consumer products, such as drugs and pharmaceuticals, textiles and two-wheelers and hospitality sectors. These forays were driven by broad socio-economic objectives, such as employment-generation (or avoidance of unemployment), need to augment supplies of essential goods and services in short supply, generation of earnings in foreign exchange, which continued to be a scarce resource.

**Financial Dimensions**

At the end of five decades of dynamic growth, 240 Central public enterprises have been in the reckoning. Of these, five enterprises were under construction, 160 were engaged in the production of goods and 75 provided services. These included 8 non-commercial enterprises subserving social interests covered under Section 25 of the Indian Companies Act.

The total investment in the CPEs at the commencement of 2000-01 was Rs 2525 bn. This is approximately 14% of GDP. Of this, the share of equity capital is 33% at Rs 824 bn. The balance represents borrowings, representing a debt equity ratio of 2:1. Of the total equity capital, the share of the Government of India was of the order of Rs 695 bn. With loans advanced, its investment stands at slightly over Rs 1110 bn or 44% of the total.



These dimensions of investments are exclusive of the involvement of various state governments, on the one hand, in state level public sector undertakings numbering around 1000, involving an estimated investment exceeding Rs 1000 bn, and on the other, of large investments in other social and infrastructural activities such as the railways, road and shipping transportation, including ports, several financial institutions and banks, especially the Industrial Development Bank of India, State Bank of India, Life Insurance Corporation, General Insurance Corporation and its subsidiaries.

**Era of Economic Reform and Globalisation**

When the structural adjustment and liberalisation programme was launched, it contemplated *restructuring* and closure of *unviable* public enterprises. However, silent moves resulted in sharp shifts from restructuring and reform to substantial disinvestment and then to outright privatisation – partly open, partly concealed. In between, privatisation was disguised as strategic sale. It took the garb of strategic sale as the political system in India was not yet ready, it was perceived, to accept outright privatisation. Slowly, the instrument of strategic sale surreptitiously slided into privatisation of selected CPEs. From selective privatisation to wholesale privatisation across the board was an easy and facile step when the new government stepped in 1999. Protests, few and far between, were muted.

Under the orchestration of a targeted programme, the mind-set is metamorphosed. Any source defending the public sector is dismissed as one out of tune with the contemporary thinking, empirical evidence, notwithstanding.

**New Face of the Public Sector**

Despite the demoralising uncertainties (because of virulent attacks), the vibrant Central public sector has been gearing itself to meet the challenges unleashed under the economic reforms programme of 1991. It is reflected in innumerable directions: large

new investments and investment plans, non-dependency on budgetary support and accessing resources from the market, strategic alliances and joint venturing, disinvestment and restructuring including buy-back and intra-sectoral cross-holding of shares, acquiring and complying with the *navaratna* and *miniratna* dispensation and new corporate governance, meeting open competition in the market, total quality management and business process reengineering, entry into IT and Internet, downsizing and delayering, focus on environment protection, energy conservation and, above all, futuristic human resource management.

The public sector today has come a long way and presents a new vision. *It is no longer the public sector of yesteryears*. There is, however, no denying the fact that a certain part of the public sector – like a substantial part of the private sector – is old, obsolete and non-performing. That segment may have to be jettisoned. The current privatisation thrust, however, is not focused on that part which is a source of capital depletion but targets, even preferentially, the robust undertakings whicb have the potential to become *globally competitive* and are *economically strategic*.

In the face of changing domestic and global scenario – with new mindsets of the market economy and knowledge society – a few premises need to be recognised as cardinal hypotheses.

First, it is distorted and biased perception that the public sector has been a financial failure and the private sector is, *ispo facto*, resource efficient.

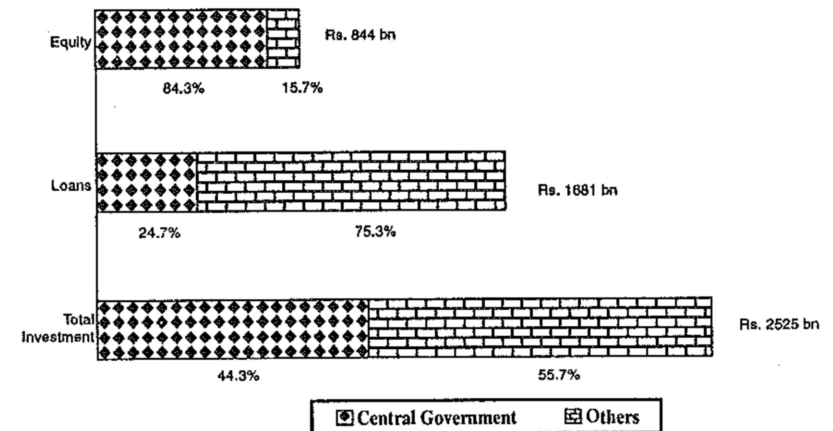
Second, it is also an untenable hypothesis that the public sector enterprises, which are performing, will not be able to meet global competition to which they are increasingly being exposed. Given the necessary freedom to operate with the required professionalisation, the public sector enterprises will be globally as competitive as private corporates. More private companies have, in fact, faltered than those in the Central public sector, during the decade of the liberalisation era.



Third, there is nothing pernicious about public and the private sectors as such. Systemic aspects of each generate problem areas. Both can function and perform well subject to normal oscillations characteristic of market economies.

Fourth, ironically, public sector organisations are now mandated (only) to maximise profits imitating private entities. Synchronously, the private enterprises are being forced, for survival, to be more professional with increasing doses of empowerment down the top-hierarchy, the process being accentuated by doses of real-time corporate governance. There is, as a consequence, growing convergence.

**Exhibit 1**
**Central Government's Share in CPE Investment**



# 2

# Who Performs Better

## The Fudamentals

The shift in the perception against the public sector has been prompted by the widely held belief that the financial performance of the sector has been substandard and has been a source of fiscal imbalances, a bane of country's present economic problems. The belief is unconcerned with and is oblivious of the fact that financial profitability was not the rendezvous of public enterprise and that the retum, especially in the recent period, on the total govemment financial stake is fairly encouraging.

Aggregate net profit (after taxes) earned by all Central public enterprises (CPEs) in 1999-00 was over Rs 145 bn, which was over 17.5% of total equity capital, the base investment, a major part of which flowed from the national exchequer. In the preceding year, the return was around 17% and a year before, it was higher at 18.9%. This return was net of losses incurred by sick and closed enterprises, which included closed terminally sick companies which were taken over from the private sector.

What is, perhaps, reassuring is that the overall net profit of all the CPEs in 1999-00 was Rs 145.55 bn against only Rs 22.72 bn in 1990-91, increasing steadily year after year. The profit includes the losses of loss-making CPEs (including the takenover sick enterprises). It also includes the results of non-commercial Section 25 companies. The progressive improvement invalidates the assertion that the public sector cannot survive in the liberalised era of globalisation.



Net profit of profit-making enterprises expanded from Rs 53.94 bn in 1990-91 to Rs 246.15 bn at the end of the decade. This represents a near five-fold increase. In the context of open market environment, this was no mean achievement. What is even more revealing is that while these profit-making enterprises produced a healthy 17.6% return on equity in 1990-91, the terminal year of the decade saw a staggering, almost 50% return.

Besides the share of profit earned, the government received interest on loans and taxes. In the terminal year of the decade (1999-2000) alone, the exchequer received Rs 521 bn in the form of dividend, interest and taxes (excluding sales tax and other levies). On the government's total investment of Rs 1,110 bn (both in equity and loans), the national exchequer earned/received, including taxes, Rs 564.33 bn or 50.8% in 1999-00, a position not substantially different from the preceding three years. In the four years, 1996-97 to 1999-00, the government earned or received revenue flows in the form of profits, interest and taxes aggregating Rs 2030 bn, which is 183% of the total average investment by the government and excludes sales tax and other duties and taxes most of which are received by state governments. Even if the share of profits retained is excluded, the total received by the exchequer comes to Rs 1704 bn, 153% of invested capital.

The contribution of internal resource generation to the incremental annual investment in the CPEs has varied from a low of 44% to an unimaginably high of 765%. Overall, the CPEs have generated more resources by themselves than what has flowed in as investment.

The number of CPEs is limited. It would, therefore, be more logical to evaluate the comparative financial performance of the two sectors, public and private, based on empirical data relating the top 50 and top 100 public and private sector corporates. A CIER study[1]

1. Centre for Industrial and Economic Research, *Comparative Performance of Public and Private Sectors*, Standing Conference of Public Enterprises, New Delhi, 2000.

had shown that the turnover of the top 50 public sector companies in the year 1997-98 was of the order of Rs 23,100 bn against Rs 10,905 bn for the private sector. Extending the horizon to 100 companies, the relative turnover in that year was of the order of Rs 24,866 bn for the public sector and Rs 14,981 bn for the private sector.

The two sectors come close – within a narrow range – in respect of the benchmark of RONW (return on networth). But what is even more interesting is that RONW for the public sector is higher for both segments, top 50 and top 100. Against the RONW for the private sector of 11.9%, that for the public sector was 13.0%, over a full one per cent higher among the top 50 corporates. The divergence gets reduced with the extension of the horizon from 50 to 100 corporates, and yet it is the public sector which scores higher, 11.9% against 11.3% for the private sector.

Applying the more scientific parameter of economic value added, the CIER study based on comparative modified-EVA also shows that the public sector fares no worse than did the private sector. The top 50 and top 100 corporates in the public sector yielded relatively more favourable coefficients than did the private sector.

Other studies have shown similar results. An independent exercise carried out by *The Economic Times Research Bureau's* Tushar K. Mahanti has shown that, of the 100 selected large companies, there were 40 private companies which had yielded negative EVA in 1998-99. The Confederation of Indian Industries (CII), the leading conglomeration of the private sector, had come up with a paper on the erosion of EVA by the Indian corporates of 130 major Indian listed companies (claiming 50% of the total market capitalisation of all listed companies). It had come to the conclusion that a large number of blue chip private companies posted a negative growth in their EVAs during the period 1994-95 to 1997-98. The total value lost by the selected leading private sector corporates was of the order of Rs 207.72 bn after adjusting for companies with positive EVA. Most private sector companies



had lost shareholder value in excess of Rs 500 mn during the period. The cumulative shareholder value lost by the companies with negative EVA was of Rs 236.38 bn.

Extending the horizon, results from the data produced by CMIE[2] covering a large number of corporates with sales turnover approximately 60% of India's GDP, and two-thirds of the organised industrial sector, show that the basic public sector (excluding the takenover private enterprises) yielded better performance than did the private sector. In 1996-97, the difference was marginal but in 1997-98, profit-to- turnover ratio was a high of 4.7% for the basic public sector against the total private sector at a mere 2.3%. In the following year, the position became even more favourable for tbe former. The profit-to-turnover ratio was 4.6% for CPEs and a mere 1.5% for the Indian private sector. In that year, the coefficient of NP/NW (profit to net worth) was 5.4% for the basic public sector, better than that of the Indian business houses at 5.2% and of the total Indian private sector at 4.7%. The divergence increases in the following year. The only small selective foreign sector was doing better than both while its net worth had a relatively small base.

Put briefly, in most financial parameters, the CPEs showed better results than did the private sector. The misleading perception persists because distorted comparisons are made: the performance of leading companies of the private sector is compared with the performance of the total public sector.

### Other Financial Parameters

CIER's analysis based on the results of a tally of 2436 companies yields a revealing picture on dividends declared by public and private sector companies during 1998-99. Some 1452 or about 60% of the private sector companies *did not declare any dividend* during 1998-99. The comparative shares of non-dividend declaring companies in the two sectors were: PSUs 24%, private sector 60%. Nearly 62% of the public sector companies in the tally had declared dividends

2. Centre for Monitoring Indian Economy, *The Corporate Sector, 1999.*

exceeding 10%; in the case of the private sector companies, only 36% had declared dividends exceeding 10%. Over 41% of the public sector companies had an earning per share (EPS) exceeding Rs 10, against only about 16.5% of the private sector. Nearly 32.7% of private companies had registered nil or negative EPS against only about 17% of the PSUs. Again, in respect of P/E ratios, the public sector scored higher. Some 48.2% of the private companies showed P/E ratios of less than 1 as against only 22.5% of the PSUs. The comparable ratio of P/E exceeding 10 was 22.5% for the PSUs and 19.0% for the private sector. Similarly, while 88% of the PSUs recorded prices at or above par, the proportion of private sector companies was about 62%.

The reports like the one from CAG saying that the 87 PSUs reported accumulated losses of Rs 379.70 bn are given prominent publicity even by the media. It naturally does not talk of losses by private companies and large reserves and surpluses held by the PSUs. If one were to talk of accumulated losses of the faltering private sector corporates, these would be staggering. At the end of 1999-00, the reserves of the CPEs were of the order of Rs 786.31 bn net of the carry forward of losses. In other words, if the total picture is taken, there were no losses, there was a huge surplus.

As indicated earlier, the performance of the public sector in the 1990s fully reflects the steady progress towards a sustainable commercial capability. The gross margin on capital employed remained high, between 19 and 21%. Net profit to equity improved from 5.2% in 1990-91 to 17.5% in 1999-00. Profit before tax also improved perceptibly from 8.0% to 27% in 1999-00.

Some 22 CPEs quoted on the Stock Exchanges revealed these results: the quoted CPEs had a market capitalisation of Rs 1,036.90 bn against paid-up capital of Rs 113.25 bn towards the end of June 1999 (23 June 1999). In other words, the shareholders were prepared to pay 8 times the paid-up capital of these 22 companies. Because of the market oscillations, this multiple improved to 10 in early 2000 and reverted back to over 8 in May 2001. Several government



spokesmen, let alone businessmen, declare, however, without any reservation that the public sector has been a source of colossal losses to the exchequer.

Finding public sector performing well, it is repeatedly maintained that its profitability is limited to a small number of enterprises and most of these earn profits because of monopoly power conferred on them by the government. It is as patent a distortion as those on profitability. Monopoly is the power a monopoly wields in fixing monopolistic prices or restricting production with a view to earning monopoly profits. No monopoly power was exercised by any of the CPEs even where natural monopolies existed. In fact, these companies have badly suffered from *'imposed'*, euphemistically styled, administered prices, which have been their bane. Low prices imposed by the government to serve some social and public interests could not, by any imagination, be considered monopoly prices – or exercise of monopoly power. There was no PSU which restricted production to realise monopolistic prices or fixed monopolistic prices. The imposed prices cut heavily into the profits of CPEs – rather than enabling them to earn monopoly profits.

If one has to find cases of monopolistic prices operationalised through cartelisation, a recent case of private cement companies could be interesting. The cement companies decided to limit production to keep the prices high until demand rose. The case was referred to the Monopolies and Restrictive Trade Practices Commission. The case is not different from that of OPEC, the international oil cartel – maintaining high prices through restriction on output by agreement among the producers.

There is another major factual distortion which has affected the public sector image. This relates to the rate of savings by the public sector. The negative shown against the public sector is only due to government administration. Disaggregated from government administration, the total public sector (including departmental and non-departmental public sector) shows positive numbers – which compare favourably with the private corporate sector. The

contribution of the public sector in 1998-99 (the year for which the latest data are available) was 4.5% and of the private corporate sector 4.2%. Going 5 years back (that is 1993-94), it was 4.0% for the public sector and 3.8% for the private corporate sector, still higher for the public sector.

### The Caveat

The foregoing analysis is not intended to belittle what has been accomplished by the private corporate world. Some of the companies are becoming world-class. It aims at clearing the mist and to demonstrate that subject to normal market behaviour and mandates, a large part of the public sector is performing, even financially, well.



# 3

# Setting Management Benchmarks

Not many are able to reconcile to a simple but valid hypothesis that some of the best managed companies in the country are from the Central public sector stable. Half-truths and innuendoes are too frequent in the air to permit acceptance of this reality. The fact is that the management quality of several robust CPEs compares with the best in the country. These have also produced a high breed of top and middle layers of managers and technocrats. This has been achieved despite their large dimensions, world-class complex and advanced technologies and highly constrained operating environment. The contributory factors are well-developed professional management systems, undaunted, as it were, by rule-centred environment in which they were made to function.

The government administered MoU system lists some 40 PSUs, the management performance of which is adjudged 'excellent' and many more as 'very good' and 'good' – while it is vigorously maintained that public sector is resource-inefficient.

A few illustrative cases could be good pointers to what the public sector can do and ought to do in national economic interest.

IOC is not only the largest corporate entity in India, it is the sole Indian entry in the Fortune's Global 500 inventory with a turnover which has exceeded the astronomical figure of Rs 1.18 trillion. Ranking 206 in 2000, Fortune lists IOC as the 18$^{th}$ largest petroleum company in the world. It has been adjudged also as the Best Jet Fuel Marketer in the Middle East. This reflects its capability to manage meticulously the astronomically large turnover with its highly complex

operations in procurement, production, refining and marketing of petroleum products.

The twin aluminium-producing government organisations – NALCO and BALCO (the latter now privatised) – have made notable contributions to the development of the non-ferrous industry in India. Having competed with the private sector on equal terms in both domestic and international markets, NALCO, in particular, has gained a leadership role in the industry in India.

BHEL is the largest engineering company in India and ranks among the top ten power equipment manufacturers globally. The World Bank in a report on the Indian public sector mentioned that *BHEL is 'one of the most efficient enterprises in the industrial sector, at par with international standards of efficiency'*. This is the result of its consistently impressive track record of growth, performance and profitability.

Few engineering consultancy organisations can match Engineers India's enviable record of implementing projects in India and abroad. The tally: over 4000 assignments and 275 major projects. These include 35 petroleum refineries, 6 petrochemical complexes, 200 offshore platforms, 31 oil and gas processing plants, 25 mining and metallurgical projects and 11 ports and terminal projects, 8 fertilizer plants and 32 pipelines. Financial performance has been enviable.

The performance of NTPC's power stations has become a benchmark for the Indian power sector. The plant load factor (PLF) of its coal-based plants at 80.4% in 1999-00 far exceeds the national PLF of 67.1%. Armed with the record of excellence, NTPC demolishes many a myth which is erroneously linked with the public sector. It demonstrates unequivocally that, given the freedom of operation, a public sector organisation can perform as well as any other any where and be a benchmark for others to emulate.

The incorporation of IPCL in 1968-69 marked a pioneering effort in the development of the petrochemicals industry in India. IPCL has grown to be an institution of national importance built over



decades of dedicated efforts and vision. It has the potential to be a global player in the petrochemicals sector. It could inspire private sector with its benchmarks and, at the same time, could prevent monopolistic practices in the country. The moves at divestment of an additional 25% of its stake in the company by the government is understandable, but transferring management control to any dominant private stakeholder – domestic or foreign – would deprive the country of a national enterprise standing high on its own and one which can neutralise private monopoly.

VSNL's financial performance has been commendable posting a net profit of Rs 17.78 bn in 2000-01, a clean jump of over Rs 2.0 bn over that of the previous year. This has enabled the corporation to declare a record 500% dividend – at the instance of the government. And yet it is said that the public sector is not capable of producing profits! Even without the unusual dividend of 500% intended to benefit the government, VSNL had paid dividends at the rate of 80% during the last two years and the 500% dividend is out of current profits, not accumulated reserves. The corporation's performance in the hi-tech area speaks of the intrinsic strength of the public sector where it can operate on its own. The relative autonomy enjoyed by VSNL is attributed to its technically-oriented operations where the external interference is minimal in operational matters.

The public sector performance goes far beyond the foregoing major performers. Many other CPEs have shown high levels of excellence in management. What is even more fascinating is that despite the most inhospitable environment – with repeated attacks and uncertainties – the sector is marching ahead undeterred. A few examples.

While netting a 32% growth in profits to Rs 4,012 mn in 1999-00, over the previous year (turnover Rs 12,783 mn), National Hydro Electric Power Corporation envisions to add 44,000 MW power capacity at an investment of Rs 2,640 bn in the next two decades. The corporation has identified projects to be taken up for achieving the target, besides/foraying into the field of harnessing wind and tidal power as well as mini-and micro-hydel power.

Indian petroleum companies are all gearing up for major competition. They are also branching into non-oil areas. Surprisingly, BPCL is setting up convenience stores in its petrol stations; IOC is trying to do likewise. IOC's Top Gear (TG) convenience stores at petrol stations have come up in major cities. Each of these outlet will progressively house ATMs, coffee shops, Dishnet DSL Internet kiosks, Domino's pizza and Akabarally's fashion wear outlets and pharmacies. Who could imagine public sector oil companies doing this only five years ago. The public sector enterprises do not have a closed vision.

CMC, a service company in the hitech area of information technology, expanded its turnover by nearly 35.4% to Rs 4,687 mn in 1999-00. The profit increased from Rs 73 mn in 1998-99 to Rs 127 mn in the following year. The company has accumulated reserves of Rs 395 mn on an equity of Rs 151 mn. CMC is a highly approbated company only to be handed over on a platter. It is not only highly valued company, it had designed and implemented a very successful turnaround strategy.

Networth of CONCOR at Rs 6,078 mn in 1999-00 against a paid-up capital of Rs 650 mn, is an envious record which any company could be proud of. The return on net worth is up from 14% in 1990-91 to over 29% in 1999-00. It demonstrates that not only the oil sector and large PSEs, but even small service corporates like EIL, CMC, CONCOR, and RITES have produced highly commendable results.

SBI is conscious of the biggest challenge that the banking industry faces in induction of technology. Virtual banking is aimed at enabling customers instant access to their accounts from anywhere in the globe which threatens to end banking sector's monopoly of the payments and settlement systems. The bank has been engaged in relationship banking at the corporate level with the corporate accounts group which caters to the top 200 corporates and to the mid-corporates and retail customers. The new management concepts are not the close preserve of a few forward looking private corporates only.



Even by international benchmarking, public sector banks have done well. It has been reported that return on assets of SBI (in 1998) was higher than that of top banks in Austria, Belgium, Canada, Denmark, France and Israel, let alone those of Japan and other countries in South East Asia. Some of the rural branches of public sector banks are leaders in customer-centric management in India according to a study by Mr. Philip Middleton, head of KPMG's European outfit.

Another giant service organisation in the public sector in the country is the LIC. The total income of LIC in 1998 was Rs 352.62 bn, a growth of nearly 19%. During 1998 the sum assured under new policies was Rs 756.06 bn, 18% higher. The Life Fund was placed at Rs 1273.89 bn. This showed a growth of 20.4%. The corporation had made investments of Rs 205.00 bn in 1998-99, taking its cumulative investments to Rs 1,141 bn at the end of March 1999. The sum insured of LIC has increased to an astronomical figure of Rs 1297 bn, up by 37% in 2000-01. The first premium income expanded to Rs 62 bn, up by 65%. The number of new policies was higher by 16% and stood at 20 mn. It welcomes – and gears itself – for new competition from domestic companies and the transnationals.

This should not lead to the unintended conclusion – by implication – that the public sector is doing something unique, out of the world. Many dynamic private sector managements have achieved great results. Both segments have their star performers and weaklings, leaders and laggards. The persistent one-sided onslaught is misplaced, misdirected.

# 4

# Building Techno-Management Prowess

## Technology Upgradation

The public sector organisations, like their counterparts in private industry and commerce, have been experiencing, for quite sometime now, the winds of change in the business environment, surcharged with global competition. In the knowledge economy, technology and intellectual resource is a critical element. It calls for a perceptible change in the mindsets to face the realities of a turbulent today and a more turbulent tomorrow. A world-class enterprise has to deploy the most advanced technology without the *alibis* of being small or producing a simple product. There are no easy options in the contemporary era of boundary-less world.

The widely held perception is that under bureaucratic system, the public sector has made only minimal advances on this front. On the contrary, the public sector has been relatively better positioned in acquiring and assimilating technology considering the benchmark of what India could achieve under the prevailing scenarios.

In its areas of operation, public sector has been highly technology-conscious. The setting up of in-house R&D facilities have helped in development, deployment and assimilation of technologies. At the end of 1999, tbe number of in-house R&D units in the industry was 1207. Of these 135 belonged to the public sector among a tally of less than 250 PSUs. Of the 135 PSUs, 30 are among the units spending more than Rs 10 mn annually. The major spenders being BEML (Rs 107.5 mn), BEL (Rs 485.8 mn), BHEL (Rs 527.4 mn), HAL (Rs 528.1 mn), IOC (Rs 325.3 mn), IPCL (Rs 100.5 mn),



ITI (Rs 486.4 mn), ONGC (Rs 249.9 mn), PDIL (Rs 86.6 mn) and SAIL (Rs 483.2 mn).

Apart from spending annually more than Rs 5.35 bn in 1997-98, according to the Department of Science & Technology, 166 public sector in-house R&D units had secured 26 patents, compared to 81 by 1270 units in the private sector. This gives the public sector a patent output ratio of 0.16 to the private sector's 0.06.

In the newly emerging techno-economic configuration, the driver is information technology. A tally of 100 largest users of information technology reveals that the public sector has taken widely dispersed initiatives. By number of IT screens supported by PC/desktops, server and terminals (total number in the sample being 285,000), the public sector's share was found to be as high as 52%. The balance of 48% screens is not all held by private sector companies, it is shared by other professional and academic institutions.

## Management Initiatives

Working within the framework of the economic and industrial policies of the government, tbeir principal shareholder, the public sector organisations have carved out for themselves their own management strategies and thrusts. The strategies respond to the customer needs, product innovations, market nuances, competition (domestic and foreign), human resource management, technology upgradation (through induction, assimilation and development), productivity improvements, capital resource management. The strategies and the thrusts are dynamically conceived, designed and operationalised if only to be discounted by government procedures and interventions.

Most of the PSUs have carried out exercises in eorporate planning which set out the vision, SWOT analysis, goal setting, resource planning. Under performance contracting (MoU) dispensation, the corporate plans are being designed, dissected and debated. The annual targets are set and monitoring is carried out

systematically, performance is assessed, weaknesses and strengths identified and corrective action taken. The processes of corporate planning and performance contracting has helped to sharpen formulation of management strategies to meet the demands of global competition although the MoUs are basically one-sided and call for improvement.

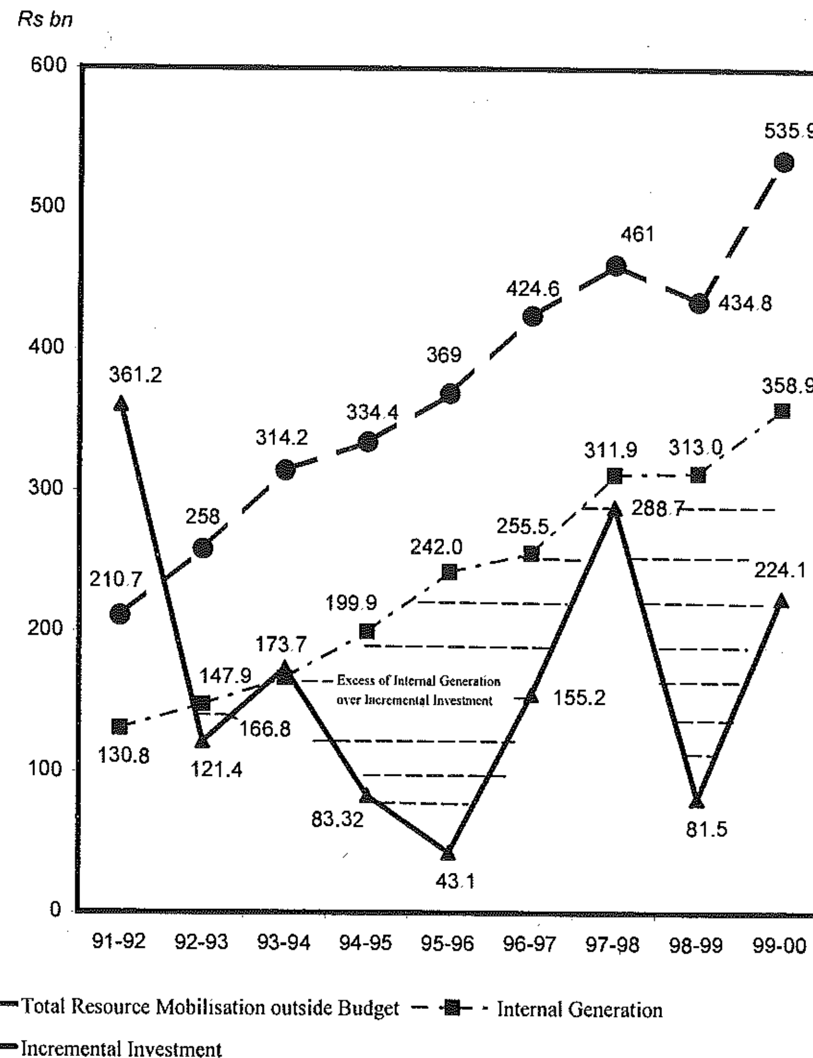
Management interventions cover BPR (Business Process Reengineering), TQM (Total Quality Management), ISO 9000 and ISO 14000 certification, ERP (Enterprise Resource Planning), IT-driven MIS, manpower planning and HRD (Human Resource Development) techniques. The action points include expansion, diversification, out-sourcing, venturing, strategic alliances, networking, ancillarisation, capital restructuring, market accessing of capital resources, co-generation and captive production of inputs.

Human material is the most valuable resource of a modern organisation. It is both an end and a powerful means for value-creation. With low productivity in the Indian undertakings synchronised with the need for accelerated development, human resource development has become a primary requisite for learning and performing organisations. HRD programmes have become an element of faith with the public sector. An important facet of management interventions in the public sector is organisation development and training. The CPEs have gone as far as establishing independent management and training institutes some of which have acquired a very special position for themselves in the world of management and HRD.

It was found that some 62 PSUs train annually over 350,000 personnel. Of these about 3090 are executives with the rest being non-executives. To ensure that the best of knowledge and skills are delivered, PSU training institutes deploy both internal and external resource people. Over 15,000 training and development programmes are held in a year – over 20% being management development programmes.



**Exhibit 2**
**Divergence Between**
**Incremental Investment and Internal Generation**



# 5

# The Corporate Citizen

## Social Vision

Primary obligations towards the society, notwithstanding, the diminishing capacity of the nation state and the dominance of global economic forces have impelled business to acquire greater responsibility for social well-being. As a consequence, a new concept is emerging in the new millennium. Participants to the Corporate Citizenship Third Manila Civics World Assembly maintain that corporates which fail to undertake the social responsibility could face the prospects of shrinking consumer base, and consequently, profits. It is pointed out that "some of the world's successful companies, including Shell, Nike, Union Carbide and Exxon, operating entirely within the law, have experienced devastating public relations disasters due to negative perceptions of their social responsibility". The latest addition to the heap is the world's top private sector icon, Microsoft, convicted by a court in the US as a monopolist harming the interest of consumers by stifling competition.

Apart from the major macro level socio-economic goals served, the public enterprises were enjoined upon and carried out a large number of specific socially-oriented objectives, such as provision of education and healthcare facilities. The commitment to provide housing led to building of townships in remote and inaccessible areas. These were targeted at people engaged by the undertakings, in particular, and at the proximate community, in general.

The social content of the public sector – or for that matter of



any production, service or commercial activity – is as valid today as it was in 1950s and 1960s. This is evident not only from the reiteration of these objectives in the industrial policy enunciation in the wake of the economic reform programme but by umpteen pronouncements of the enlightened leaders of private enterprise. The qualifying epithet 'human face' applied by the then Finance Minister, Dr. Manmohan Singh, to the structural reform programme, intents to take care of this dimension, not blinded by or overshadowed by short term financial gains.

## Employment Generation

From a strength of nearly 700,000 employees in 1971-72, the public sector employment expanded to touch 1.9 mn by the end of 1981-82, registering an annual growth rate of over 10.5%. Over the next decade, ending 1991-92, the employment in the sector had crossed the two million mark at around 2.2 mn. If some contraction has taken place, it followed a deliberate policy. Under the new reform programme, an embargo was placed except in special cases, on the expansion of the public sector. It was demanded that the public sector shed great deal of flab, which was necessary to make PSUs financially more profitable.

Driven by the new policy initiatives of making industrial organisations lean and thin and the urge to make them financially more productive, there has been a fall in employment since 1991-92. At the end of 1999-00, the overall strength had dropped down to 1.9 mn, the same level as at the end of 1981-82. A lot was achieved through voluntary retirement schemes (VRS) by offering attractive terminal compensation.

The public sector has remained alive to supplement the efforts of the state in alleviating the socio-economic conditions of the people belonging to the scheduled castes and tribes and other backward classes. These classes constitute nearly 27% of the total employment generated by the public sector. *Dismantling of the public sector will be a direct loss to this disadvantaged lot.*

## Balanced Regional Development

Promotion of balanced regional development was a prime objective for the setting up of the public sector enterprises. This objective was invoked to remove disparities in the levels of development within and between regions. While private enterprise thrived in areas endowed with locational advantages, the public sector, by and large, was made to venture into undeveloped areas without any adequate infrastructural facilities and locational advantages, including the non-availability of skilled and unskilled manpower. If the private enterprise did go to backward areas, it was prompted by the financial concessions extended by the State and Central governments.

## Eclipse of the Small Shareholder

According to a research study carried out by the Social and Rural Research Institute of the Indian Market Research Bureau, the corporate sector in India is not doing enough and lacks focus on social development activities. Of a sample of 600 companies, only 11% were found to have a policy. The sample covered MNCs, public sector units and private sector companies spread over a wide spectrum of business. Although health, education and infrastructure remain a concern of these companies, there is confusion on priorities whether 'they should be thinking about their employees or shareholders or the poor'. What is a matter of great concern is that even the small shareholder is getting into the oblivion. His plight, in the present scenario is anything but reassuring. It is going to be worse in the era of multinationals and the market theory of two dominant players in each industry. *Powerful competition erodes competition leaving the field for self-crowned market leaders.*



# 6

# In Search of a New Direction

## Privatisation Policy

In the recent years, especially after 1997, the policy has shifted, as indicated earlier, from disinvestment to privatisation (first camouflaged under the garb of strategic sale), which has leaned on highly performing and economically strategic undertakings. While there have been only three cases of privatisation (Lagan Jute Machinery, Modern Foods and Bharat Aluminium Company), several others, such as those of Indian Airlines, Air India, VSNL, MTNL, Hindustan Zinc, IPCL, CMC, Engineers India and many others are on the anvil. Nevertheless, the rationale – prompting – for the privatisation policy as advocated by different groups with different motivations and predilections, has been beset with contradictory positions.

While participation of and regulation by the state was timely and prudent, India's strategies of resource management faltered at least in one significant respect: the state's participation became synonymous with creeping involvement of the political system and of bureaucracy. The aberration was so deep and extensive that it did not only produce seepage of resources, slow growth and low productivity, it stifled enterprise, efficiency and innovation. Overbearing state intervention in all segments of the economy – including the public sector – led to misallocation of resources while rational allocation ought to have been the strategy. It led to restraints on growth while growth was the goal. It led to high costs reflected in rising ICORs (incremental capital output ratios) while competitive costs (because of rich resources and low labour costs) was a

comparative advantage. In the process, the Indian economy lost the competitive edge and the spirit of healthy growth.

State interventions took varied and ingenious forms from the very inception of the public sector. Investment decisions, which ought to have been the product of rational investment and technology criteria and evaluation, became subservient to political economy, be it a case of promotion, expansion, diversification or modernisation of production. It invariably involved procrastination – as opposed to speed, and judgemental decisions – as opposed to objective and professional choices. The time sense, an essential ingredient of cost-effective operation, was given a pass-by. Procedures became the prime engine. Inputs, not outputs, became the indices of performance. Productivity was sacrificed at the altar of expediency.

The decision-making processes were so motivated that sick and bankrupt enterprises – most of which were the result of mismanagement and unethical business practices of private companies – were transferred to the public sector. These units had reached the terminal stage of their life cycle. What is worse, the timely infusion of resources needed to revive them were denied not for months, not for years, but for decades.

Unwanted employment at whatever cost was imposed on commercial enterprises while these are now expected to produce profit by global benchmarks. Work compensations were kept abysmally low. While the Chairmen, Managing Directors and Directors of CPEs are appointed by the government, serving bureaucrats were nominated on the Boards to oversee them. Leaving aside some exceptionally outstanding contributions, not infrequently a single nominated Director controlled decision-making with a simple nod, often overriding the proposals of the entire Board. It is known that even after decisions were taken, these were overruled at the other end.

In the presence of all the top-level state agencies to oversee and control, vacancies of functional Directors including Chairmen and



Managing Directors, remained vacant, sometimes for months and years. Most of the times, the number of these vacancies would exceed 100. Interestingly – or tragic as it may appear – Chairman-cum-Managing Directors, with a tenure of up to five years, would not know until the last moment whether he was to retire or to continue. Even the Board was not supposed to know. Leadership is a prime resource which makes organisations goal-effective and performing. It is anybody's guess as to what is expected to happen if leadership is treated with such abandon?

Whilst the case for privatisation and disinvestment is made by the oft-repeated dictum – that it is not the business of the government to be in business, it was, however, a deliberate effort on the part of the functionaries to make the public sector business a part of their business. There is a facile assumption that the government ownership *ipso facto* called for (or needed) government interventions at all aspects of commercial enterprises promoted and owned by the state. No thought has been given to a simple thesis that while it was necessary for the state to promote and invest in desired economic activities, some of which had to be organised commercially, it was not necessary for the state itself to manage commercial enterprises.

What is generally assumed – and even believed – is that *the government was only exercising the shareholder's control*; in effect, may be unwittingly, all the time *it was performing the functions of management with remote control.* The management – in the role of a surrogate – was not left with the necessary autonomy of management, which has been the subject of discussion at numerous fora. Scores of reports and papers have been written on the need and the criticality of autonomy in public enterprises, only feeble attempts have been made to inject real-time autonomy.

The two instruments introduced in the recent years are the performance contracting (MoU) system and *navratna* and *miniratna* dispensation. These were proofs – if any proof is required – that the public sector did not enjoy autonomy. While an attempt was made,

from time to time, to maintain that the MoU system was very effective and that the *navratna* dispensation was a powerful initiative, divergent opinions have been expressed openly. In a government-UNDP sponsored programme held as late as mid-November 2000, views were expressed that these instruments, howsoever well-intended, have not caused any real change.

In brief, while autonomy has been the cardinal and critical element of high performance, it is this element which has been conspicuous by its absence. Devoid of autonomy, what PSUs perform is not of their making.

What, however, is a matter of concern is the fact that even when it was fully realised that the government should not have been in certain businesses, it did precious little to get out of what appeared beyond doubt not necessary or only generating losses. In not so doing, the exchequer has, of course, lost crores. What is even more amazing is that it continues to stick to such ventures even in the post-reform period of a full decade, despite BIFR references.

While admittedly, the government should not be running commercial enterprises, it does not *ipso facto* mean that the economically strategic and robust enterprises should be handed over to those who do not possess an impeccable record of performance, while the loss-making enterprises should continue to plague the exchequer. Both privatisation and disinvestment are the right course; the debate is where it should be applied and what should be its priorities. *Disinvestment could be tried across the board with a structured and phased programme, privatisation calls for a great deal of thought and discretion.* Privatisation must also deviate from the assumed hypothesis that the private sector is universally resource-efficient – a premise not supported by empirical facts.

It is, indeed, ironical that the government is selling off vital national institutions like IPCL, EIL, NFL, VSNL and a host of others with great future potential. It is ironical for two vital reasons: the government has not given the opportunity to the undertakings to



continue to operate as autonomous units, especially in the open market environment and to prove their worth. Secondly, when the economy has been opened up for private investment almost across the board, these enterprises will offer effective competition. Their privatisation will create duopolies, oligopolies and monopsonies; the independent existence of transformed public enterprises will, in fact, inject much competition.

Unlike some of the confirmed critics set against the public sector, Arthur Anderson, one of world's largest consultancy outfits, has said that with the prospects in India linked to the pace of infrastructure development, *the need of the hour is to push development through joint government and private sector efforts rather than either party going on its own steam.* According to the global consultants, India needs what they call a public-private partnership (PPP) model of infrastructure development. It will allow for adequate risk-sharing between the government and the private partner and for the right balance between the profit motive of the private operator and the social service objective of the government.

Autonomy to public sector units *rather than outright government divestment could be a better solution in improving their performance,* said Mr. Y.C. Deveshwar, Chairman, ITC Ltd. speaking at a seminar organised by the Federation of Indian Chamber of Commerce and Industry, a private sector CEO of a leading private sector company at an apex private sector forum. He suggests that instead of the PSU management reporting to a single minister or secretary, let it be accountable to a group of professionals. *According to him, who owns a company is not important. What is more relevant is the freedom to the management.*

Nobody, even the most ardent supporters of the puhlic sector, has been enamoured, it is understood, of retaining 100% or even 51% government stake in public enterprises. On the contrary, what is advocated is public participation and reduction in or elimination of equity holding in the hands of the government to a level that it could disentangle itself from external interference. It has been crying

for autonomous and professional dispensation, which could be better ensured when public participation takes place. The public participation will augment the resources of the public sector (and also of the national exchequer). The public sector – which has remained *the state sector* – is, in fact, wanting to become *a truly public sector.*

The public sector in India has performed the task *assigned* to it scrupulously. It was not earning high profits. There are several aberrations, but all are not of its making. The acquisition and operations of bankrupt private sector companies, for example, was a result of decision imposed on it. The public sector's main objective was socially-focused, in many cases by the conception of enterprises and in others by their mechanisms.

Despite the bureaucratic procedures which the public sector undertakings have had to follow, a high degree of professionalisation has taken place with far more focussed and efficient HRD interventions. The public sector has undertaken more effective R&D effort at the enterprise level. The PSUs have attended to the welfare and social dimension of the workforce in particular and the community in general in a much more effective manner.

The mindset of those engaged in the public sector has visibly witnessed a metamorphosis, not of the critics and vested interests and some policy formulators. Given the freedom to operate under new standards of corporate governance now advocated by professional dispensation, the public enterprise managements are confident to be globally competitive if – and that is a big IF – the government remains at an arm's length.



# 7

# Ad hoc versus Holistic Policy

### Stock-taking

Because of the involvement of several agencies in the matter of privatisation policy, wide variations occur. Even within the government, divergence of opinion is marked. Whenever a case is taken up, ever new controversies develop. Sometimes, it is valuation; at others, it is competition. Today it is the disqualification of the bidders. Tomorrow, it will be the security risk or the worker interests.

The debate about and the content of privatisation (or disinvestment) is crying for a definitive, integrated and coherent policy.

During the last decade, 1991-92 to 2000-01, the government realised through disinvestment an estimated amount of Rs 212 bn, through disinvestment of minority stakes in selected PSUs. This included inter-corporate transfers. In the Union Budgets for 1999-00 and the following year, credit was taken in each year for disinvestment proceeds of the order of Rs 100 bn. The success rate of disinvestment has been low in terms both of expectations and budgetary provisions. Against a total target of Rs 543 bn, the realisation of about Rs 212 bn represents a shortfall of the order of Rs 340 bn. However, the target for 2001-02 has been placed at Rs 120 bn and the Planning Commission has put it at Rs 800 hn for the Tenth Plan period (2002-07).

A considerable amount of criticism surfaced on the modalities and values. The moves, however, were basically in the nature of

experiments. The government was groping for an acceptable way out. If an holistic policy was in place and the task assigned to a professional SPV (special purpose vehicle) to design and implement the programme, better and quicker success could have been achieved. The process could also prevent pulls and pushes in divergent directions from divergent sources.

**The First Disinvestment Commission**

Incidentally, some 72 CPEs were referred to the then Disinvestment Commission, leading to the production of some 12 reports. Recommendations were made on 58 CPEs. It recommended trade sale of 8, strategic sale of 24, and share offers in respect of 5 CPEs. It recommended deferment of disinvestment in respect of 11 CPEs. In one case, no disinvestment was suggested. It recommended closure and sale of assets in respect of 4 CPEs. The government accepted the Commission's advice in respect of 9 CPEs. In the case of 8 (out of 9), the Commission had recommended deferment of disinvestment, while for the ninth, no disinvestment was proposed. In most of 30 CPEs under government's scrutiny, the Commission's proposals were in favour of trade or strategic sale. The remaining cases were under implementation (two substantially implemented), while in one case, the government decision was deferred. Apart from constituting a Cabinet Committee on Disinvestment and an inter-ministrial Core Group of Secretaries on the subject, the government constituted the Department of Disinvestment under the independent charge of a Minister of State.

A number of broad policy-related recommendations were made by the Commission. Major ones:

- Linkage of implementation of disinvestment with the budgetary exercise should be avoided.
- Proceeds from the disinvestment should be placed separately in a 'Disinvestment Fund' and the National Renewal Fund should be merged with this fund. The resources of the Fund should be used for (i) temporary funding of losses of some PSUs in preparation of disinvestment; ii) providing benefits to workforce; and iii) conducting publicity campaign for disinvestment.
- Given the advisory nature of the Commission, a Standing Empowered Group (SEG) should be appointed to ensure smooth implementation. The group should be entrusted with the selection of financial advisors, supervision of the overall sale processes and decisions on instrument, pricing, timing. (Instead, the government created a Department of Disinvestment, one more official link in the entangled chain.)
- Sale of shares of the PSUs, especially of the profit-making ones, to the small investors would broadbase the shareholding. In view of the present state of the Indian and overseas capital markets, the offerings in these markets may not achieve optimum realisation. Accordingly, a big push needs to be given to strategic sale of PSUs.
- Undertaking disinvestment without implementing the general recommendations of the Commission, in particular, those relating to corporate governance, managerial autonomy, managerial remuneration, accountability, incentives, professionalising the Board of Management and restructuring, where necessary, *would result in undervaluation of government shares and loss to the national exchequer.*

The Commission, perhaps, went beyond the terms of reference and recommended several management reforms. It recommended delegation of autonomy on a graded scale. It observed, among other things, that the government initiate necessary steps to select experts and professionals from outside the government as non-executive Directors on the Boards of PSUs. *(Once again the involvement of the government was considered unavoidable in furtherance of the desire of the government to have the final word in management of commercial enterprises in which the government has the stake. One certainly expected the Commission to provide a new direction.)*

In the view of the Commission, the present MoU system needed to be revamped in order to measure the performance of PSUs qualitatively with reference to meaningful and challenging targets. Performance assessments were to be carried out at routine intervals by a joint team of the Secretary of the concerned Ministry, CEO and an outside senior professional. *(What happens to autonomy then? Jettisoned!).*

While the DoD was busy in preparing guidelines and the appointement of a new Disinvestment Commission, the following developments could be considered highly interesting.

- IPCL, declared a *navratna*, not long ago, implied that it had the potential to be globally competitive. And yet, it was decided that it be privatised. It was then discovered that its privatisation might involve the creation of a monopolistic position. The government had, therefore, to come to the conclusion that its Vadodara plant be sold to a PSU, Indian Oil Corporation. The case suggests anyway how a public sector acts as a protection against risks of monopoly behaviour. IPCL case, however, has been going on for almost two years. In the meantime, it operates under uncertainties undermining, if not destroying, its competitive strengths and corporate value. Incidentally, the Standing Committee under the Ministry of Chemicals and Petrochemicals has recommended that the government should transfer its entire holding in IPCL to IOC.

- Modern Foods was one of the many PSUs proposed to be put on the block. Its strategic sale sprung as a surprise. Many have raised doubts about its valuation.

- While many of the PSUs were declared to be privatised, a surprise move came up for the disinvestment of the government stake in all public sector banks upto 33%. Where does this 33% come from – as distinct from 49% or 26% or any other which had been talked about repetitively? The rationale of 33% was not explained. Did government consider seriously the option of merging weaker banks with other banks before making this declaration? *It is interesting that a completely new model had been proposed – disinvestment with the state stake reduced to 33% but retaining the management control. (Why does government want to be in business in banking if in principle it has decided on the basic principle to be out of business).*



- While overtures for others have been continuing, the case of Maruti Udyog sprung another surprise. Maruti is not a PSU anyway as government stake is only about 50% of the equity capital. The undertaking has been running on its own. The government, however, said that all options are open, including acquiring the 50% stake of the foreign partner, Suzuki! (Did the government intend to nationalise the undertaking? If yes, it is an interesting case of de-privatisation?) Maruti was passing through a bad patch at the time of declaration. It got aggravated by the strike of workers coinciding with the announcement. And while the government decision on the deal was supposed to be made in a fortnight, the government held that the deal would not be made under pressure. In the meantime, several fortnights have come and gone but Maruti's case remains shrouded in mystery.

Several significant questions arise deserving rational answers. *First*, why was a Rights Issue necessary? Did Maruti need more funds? Perhaps, yes. But how was government so concerned with it if it was so soon to be handed over to Suzuki or another acquirer – the two options involved? *Second*, was it a joint decision of Suzuki and the government? Apparently not. This is what Suzuki seems to have said. How could it be possible, if Suzuki was an equal partner? *Third*, what happens if FIs do not lend full support to buy the Rights? *Fourth*, why were the Rights and Public Issues (of government-

owned shares) not intended to be synchronised? If not, will not the values of shares held by the government erode in value while it makes the public issue (since the capital of the company would be expanded and the government would lose by way of renunciation)? *Five*, does the government realise that by this two-stage operation, the government would be handing over the management to Suzuki? Nothing wrong with it, but perhaps, one needs to be conscious of it since the transfer would be without a price, as if on a platter, if Suzuki does not buy any incremental stake. In fact, Suzuki would only benefit from the Rights Issue as Maruti Udyog, and not the government, will get the money. *Sixth*, a hypothetical but a probable question: will it be easy to arrive at a mutually acceptable Rights price which is acceptable to the government, Suzuki and the participating FIs? A question then arises: because of the divergent interests involved, when was the government supposed to have exited? And *seventh,* why did not the government think of a 26% continuing stake as per policy or a 33% stake as in the case of banks or a 49% as in the case of Baleo?

These multiple issues highlight some of the basic questions wbich cry for a holistic policy on privatisation.

This is not the end of surprises. In between comes the case of Bharat Aluminium Co. It was beset with several imponderables while it is now *a fait accompli*. There are serious questions raised about the method and quantum of valuation. The credentials of the final valuer have been questioned by many commentators. Balco's asset value according to the government appointed valuers was Rs 10,720 mn. For the 51% stake, the share comes to Rs 5470 mn. Add to this the value of transfer of management control (as determined by the government regulation), the total value comes to Rs 8150 mn, (Rs 5470 mn + Rs 2680 mn, the latter being related to total value since the government does not transfer half control). Even when the higher asset value was put at Rs 5470 mn and value adjusted by the value of transfer of management control, it comes to Rs 8150 mn. Why was then reserve price fixed at Rs 5144 mn?



The government's answer is that it took the benchmark of discounted cashflow (DCF) price. First, the DCF price itself was set in a range of Rs 6150-9950 mn. The half mark (for 51% stake) of the higher mark of the range was Rs 4975 mn. Add to this 25% and the price comes to Rs 7362 mn. The reserve price did not take the asset valuation price and it did not take the high of the DCF price.

That apart, why was it necessary to retain 49% stake by the government? This is in contradiction of the policy of retention of 26% determined by the government as a matter of privatisation policy which says that all non-strategic enterprises would be privatised to the extent of 26%. If only the 26% principle stake, which too is not necessary, was retained, the Balco sale price would have risen by 50%, that is, by Rs 2750 mn, an arithmetic axiom.

It is understood that the Comptroller and Auditor General (CAG) has been reported to have asked the Department of Disinvestment to furnish further details of the valuation of assets. The Department has, in turn, asked the valuer to check if the 270 mw captive power plant and the sheet rolling shop are included in the valuation exercise. The Department has also asked the valuer to provide valuation details of mines. One wonders why were these basic documents not available with CAG while the case was handed over to CAG and why does the Department not have these. These ought to have been received from the valuer when the report was submitted by him. Why should the valuer retain these important government documents with him after the assignment was over with the submission of his report?

The most serious question raised, however, was the credentials of the buyer company – let alone the credentials of the valuer on which several questions have erupted. Investigations by Securities and Exchange Board of India (SEBI) were in the process and the buyer company, Sterlite, was found to have indulged in market practices violating the market regulations. SEBI had found the company guilty and imposed a two-year ban on it to access the capital market. The official defence seems to be that the company

would find other sources of revenues. Anybody should know that the question at issue is not whether it would be able to have recourse to other resources; it is that it was guilty of violating market regulations. If it was, is it right that the government sells precious productive national assets to such parties? A Cabinet decision seems to have given the right response to DoD. It has proposed debarring Sterlite from bidding for Hindustan Zinc. The cabinet decision has also questioned others from bidding for Air India and Indian Airlines.

The very limited response to the privatisation of Indian Airlines, Air India, MTNL, VSNL, could well translate into low prices. One reason why the government could not get a very good price for Balco as well was that there was only one effective bid since the price quoted by Hindalco shows that it was a dummy bid, not necessarily a contrived bid.

The story does not end here. The two questions which must be answered are: *First,* why could Balco not be acquired by Nalco to reinforce its economic power to meet formidable competition from the only major private sector producer – Hindalco and Indal, which are now a part of one group? *Second,* if privatisation was to take place with complete management control transferred to a private company, what will government do with 49% stake? Would it not have secured a higher price without it. Tbe 49% stake tantamounts to be a favour to a prospective buyer although it might not be so.

Disinvestment is a very welcome and needed policy. Privatisation, however, has to be selective intervention and needs to be dealt with a great deal of preparation and precaution. The moves so far reflect that neither due diligence has been put into service, nor are the rules of the game fully designed and articulated. Pursued without a well-articulated plan of action, it could do a lot of damage to the exchequer, let alone broader national economic interests. It will take a long time for the government to achieve what it seeks to achieve. Uncertainties in decision making will cripple the public



sector, constrained as it is by political and governmental processes – let alone worker and Trade Union opposition.

The Planning Commission has proposed hastening of the process of government's pulling out of most public sector enterprises. An annual target of Rs 160 bn has been set for disinvestment proceeds thus aggregating to Rs 800 bn during the Tenth Plan period. But why hasten the process? Because investments are needed for infrastructural sector? Are the present investments not primarily locked in the infrastructural sector? So you disinvest from this important sector and make fresh investment in the same sector? Good business? Why not ask the private sector which is supposed to have large resources – since it wants to buy out all public sector enterprises – to invest in infrastructure and not be bothered by 'the old outfits of the obsolete public sector enterprises'?

**The Manual, A Proxy for Policy**

Lately, the Department of Disinvestment (DoD) has come up with a manual entitled *Disinvestment: Policy and Procedures.* Although basically a manual, it has been given the semblance of a White Paper as it incorporates a recapitulation of the policy statements, *albeit* in an outline form. A crucial question that calls for a pause: what did the Disinvestment Commission do if after three years of work it was necessary to create a government department of disinvestment which should itself prepare a manual on a wide spectrum of issues, which it seeks to address. Was it not the task of the Disinvestment Commission to provide the guidelines (certainly in consultation with the government). If the Commission did not address the question, why was it not asked to do so?.

The manual prepared by the Department confesses that it takes the two terms, disinvestment and privatisation, interchangeably. The purpose in equating the two terms is, perhaps, obvious – cover privatisation under the guise of disinvestment.

It is admitted at the outset that it gives a broad overview of the issues that came up during the disinvestment transactions. What it

does is to consolidate the information about the way the disinvestment policy and procedures *have evolved.*

That the manual falls short of a policy document is at once clear from the observation it makes in the introduction itself: it will be most helpful in what has come to be known as case-by-case privatisation. The 'case-by-case' and 'I-choose-as-I-proceed' approaches do not make a policy. These might constitute a licence 'to do what I like to and when I like to do'. A policy should enable laying down a road-map to achieve what the policy wishes to achieve. That road-map is missing.

The manual refers to a few cases to come to the conclusion that privatisation programmes have been an *unmitigated* success. In most countries, however, where privatisation has been attempted, the process has gone through a very difficult and varied experience which has led to slowdown in privatisation programmes in most countries. What has happened is some transition economies, sueh as Russia, is not something to write home about privatisation.

Observes William Pfaff writing in the International Herald Tribune (February 22, 2001):

> The disasters that have overtaken electricity privatisation in California and rail privatization in Britain have failed to provoke much comment on a basic issue, which is how often people in power are prepared to let themselves become prisoners of ideology. Russia's privatization of public assets is an outrageous example.
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> He adds:
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> Current notorious examples of this ideological excess are provided by California's power industry and Britain's rail roads. Ruin there is so complete that defenders of privatization can only argue that privatization was mishandled, only partially applied, or that bureaucrats subverted it. That it might have been the wrong remedy is still in-admissible.



However, the DoD manual rightly maintains that 'in the final analysis while experience of other countries is available to us by way of guidance, we have to evolve our own technologies, best suited to our level of development'. The Indian experience and the Indian context are very unique and India does not have to tread the beaten-track; it has to discover its own.

There is no dispute that the government should be out of business; the problem is with the conventional assumption that the public enterprises should be handed over to private corporates or business houses. In most large cases of privatisation let alone thousands of small enterprises in old East European command economies and China, which are referred to in the manual, the process of privatisation has been through wider public participation in ownership rather than handing over the enterprises to strategic buyers corporates or business houses. And many have faltered and closed down.

The manual says that the recent announcement to sell strategic stakes in VSNL and CMC resulted in increase in the market capitalisation/value of government holdings in the listed PSUs by almost Rs 40 bn within a single day. Apart from the sudden short term change, three things need to be noted other than what the manual has picked up. *First,* the sudden increase in the PSU share prices was due to the prospects of increased participation in the fortunes of the companies, which was now restricted and the prospect of unleashing of autonomy in management which the governmental systems had denied to the PSUs. *Secondly,* PSUs are a hidden treasure and all the frequent condemnation of the PSUs as loss-making is misplaced. *Third,* if these PSUs are turned into autonomous professional institutions with a wide dispersal of their shareholding, the government can reap a bigger harvest as the intrinsie worth of enterprises is far larger than is visualised under extremely constrained conditions. (Incidentally, the government took away some Rs 2500 mn from Balco before privatisation and are about to get Rs 10,000 mn from VSNL).

The manual says that the return on investment in PSUs, at least for the last two decades, has been quite poor. A considerable amount of data has been produced in CIER studies which invalidates such a conclusion. It is, however, not surprising since the conclusion in the manual is based on the long standing misrepresentation that the return earned by the PSUs, as a whole, never earned post tax profits that exceeded 6% return on capital employed. While 5% on sales which is not a low rate as very few companies in the private sector produce profits higher than that – it is factually incorrect that PSUs never earned more than 6% on capital employed. This is a canard which has been making rounds for a long time. What the official survey, the source of the subject data, does is to do double counting: it deducts interest from net profit and then it relates the return to total capital employed. If total capital employed is the denominator, it has to be net profit before interest. The right way is to relate net profit after interest and taxes to equity capital since the cost of borrowed capital, that is interest, is already deducted from the net profit. This anomaly which has done the greatest damage to the PSUs has been critically examined and given a decent burial in the CIER study.

The most ominous statement in the manual is that 'pursuant to our acceptance of the WTO regime and economic reforms, it has become imperative that public sector is privatised at the earliest, failing which it will soon fall sick and find it extremely difficult to survive in the new competitive environment'. The facts of the last decade have proven beyond doubt that it is the private corporates which have fumbled and faltered in the new competitive environment and the public sector has achieved much better performance. It is the private sector which is crying hoarse for what it calls a level playing field – read protection. Data show that the return on investment of PSUs has improved phenomenally in the post-reform era. Given full autonomous functioning under the professional model, the public enterprises would do as well as or better than their counterpart private corporates.



Writing on reviving the Indian economy, T. Thomas, former Chairman of Hindustan Lever writes in *The Business Standards* (June 29, 2001):

> Negotiated sale to strategic partners have proven to be politically vulnerable and economically unstimulating. The government should offer directly to the public, through the stock exchanges, significant stakes in several of the PSUs in the petroleum, telecom and financial sectors.
>
> Such divestment to the public will have several benefits: a) there will be far less criticism in the Parliament, b) the stock market will revive, c) the savings of the public will find a productive home, d) the government can invest the realised value of its PSU holdings for retiring government debt, e) the PSUs will be forced to become more transparent and accountable to investors as significant shareholders, and thereby can be compelled to improve their efficiencies and services, f) *it will open the door for the government to move out managing PSUs altogether,* and g) lastly, and probably most important, the investment climate will be transformed and become much more attractive to domestic as well as foreign investors.

If this route is adopted, it will pave the way for what is outlined in the following analysis as a Third Option of a Professional Sector.

# 8

# Towards a New Rendezvous

## A Misdirected Goal

It may be recapitulated that the basic rationale and justification for privatisation – as distinct from disinvestment – is based on three basic premises. *First*, the public sector has not performed well, especially in financial terms. *Second*, the private sector enterprises are an epitome of resource efficiency and these alone can manage commercial enterprises generating shareholder values. *Third*, it is not the business of government to be in business.

On the first premise, empirical data suggest to the contrary. The last proposition is, indeed, a valid proposition but if the experience of the last half-a-century is any indicator, it has been found that the government has been too keen to be in business and is highly reluctant to stage an exit. Even when the need for autonomy was conceded and the MoU system was introduced, the governmental chains remained intact. Recognising this, *navratna* and *miniratna* systems were introduced. Even this did not make any real change. A major impediment to the disinvestment programme in the 1990s has been recognised by many analysts and writers as the attachment of the government with the public sector. It is a simple case of retaining economie power through the exercise of an oblique instrument of economic power. Privatisation programmes have been highly hesitant and halting. Even when an unequivocal decision for pure privatisation is made, there is a predilection for the 26%, 33% or 49% stake retention.



The real problem could be sited in the second premise. There is a prevailing but unsubstantiated perception that the private sector is undoubtedly and ubiquitously resource-efficient which yields high returns to the investors – if not to all stakeholders. The perception has, in fact, attained axiomatic and staggering proportions with far-reaching policy ramifications. Some statistical evidence on the comparative performance of the two sectors was referred to in the earlier sections. The first part was based at the macro level. Later analysis focused on the performance of the public sector enterprises at the micro unit level. This appraisal may now be extended to the counterpart private sector. The objective is not to undermine or belittle the role of some exceedingly outstanding performance of several private enterprises. It is only to say that the condemnation of the public sector is unwarranted and that the route to reform the public sector *via* privatisation is, at least in a number of cases, not a sound one.

Despite the fact that the private sector has operated in an ambience of freedom (of operation), yet innumerable enterprises have failed perceptibly, some for short spans of time, others terminally. Several of the failing private corporates are giants; the number of SMEs (small and medium enterprises) facing the fall is much too large.

The private sector aberrations do not concern only the bottomline failures. Every business, whether in public, private, joint or cooperative sector, is exposed to ups and downs. What, however, is unpardonable is defaulting and unethical behaviour.

A very large number of Indian companies are reluctant to make even the mandatory disclosures and to make payments due to their shareholders and depositors. It is reported that some 200,000 companies have not been filing their returns while they continue to enjoy the limited liability privilege. The data show that over 26,600 prosecution cases initiated by the Department of Company Affairs, Government of India, were pending before the courts. The Bombay

Stock Exchange (BSE) maintains and publishes a list of 'Z' category of companies that failed even to comply with and are in breach of several provisions of the listing agreement. These include non-payment of dividends and deposits.

The amount of non-performing assets (NPAs) afflicting the banks has exceeded Rs 620 bn. These represent not merely business failures but defaults. Leading analysts have expressed the view repeatedly that recourse to BIFR (Board for Industrial and Financial Reconstruction) is made, in a number of cases to avoid financial commitments. There is an oft-repeated saying that companies become sick, not their promoters.

A very large number of companies were floated in the heydays of liberalisation. Unscrupulous promoters collected billions through public issues. Today there is no trace of a majority of these companies or their promoters on the stock exchanges. This has seriously impacted the equity culture among the small investors, which was building up. There are millions of shareholders today, who having paid out of their hard-earned life savings, find their shares no better than scraps of paper.

As was indicated, it was discovered before the ink was dry on the only major privatisation case that the acquirer had violated SEBI regulations and was, tberefore, disqualified for bidding. Similar action in other cases has dried up bidders, which may result in major losses to the exchequer.

If precious national assets – built with sweat and tears of committed life-time employees – and significant to the national economy have to be protected, there is a need for a systemic transformation – not handing these over on a platter.

In other words, it has to be ensured that the conventional privatisation route – whether by ownership or by management – does not lead the robust and economically strategic enterprises in the public sector to a quagmire of non-performance and not-so-ethical



business practices. It is also imperative that free market economic model does not eventually land itself into monopolistic modes or cartelisation at least in significant market areas. It has to be recognised also that the government cannot always be selective. It cannot take a position that the stake does not pass on to a specific multinational which has doubtful background. Even if it were possible, any buyer today might transfer his stake to a new buyer tomorrow. And the government will have no way to prevent it.

**The New Role Models**

The Central public sector did, no doubt, suffer from some bureaucratic procedures but, at the same time, it had developed its own work culture and strengths. It will be a tragedy if people-centred management ethos is buried for ever, yielding place to promoter-centred hierarchical management. One must, therefore, search for alternative options. There exist, in the Indian industrial structure itself, examples of highly successful and performing organisations. It would only be prudent to examine if these provide the option which the transformation calls for.

Several models could be considered. The one which could provide a really viable alternative is the professional model. In this enterprise model, there is no dominant stakeholder and the management is truly shared among the professionals. Close to this model envisaged, there do exist some robust, well managed and performing companies in the Indian economy. These have performed well over long time spans. These could provide the new direction which robust economically strategic public sector could adopt. This model is represented by the likes of ICICI and HDFC in the financial sector; BSES in the power sector; L&T in the private sector; and GNFC in the quasi-public sector. There are, of course, many more.

These are truly Board-managed companies, if there can be one representing the basic premise that all joint stock companies

are shareholder-controlled corporates. Practically all other corporates are only theoretically shareholder-controlled companies. Thousands, sometimes hundreds of thousand shareholders, are mere idle investors without any say in management. The law gives, in practice, all powers to the dominant family or a group. Dispersal of the investors accentuates the dominance of the major controller – not even a major owner.

In each of these professional corporates, there is no dominant shareholder. Shareholding is widely dispersed with some institutions holding sizeable but not dominant stakes. The Directors are elected by consensus. The Board appoints special committees to look after specified functions. There are audit committees, search and compensation committees.

With delayering of organisation structure, there is empowerment down the line. Corporate plans are developed and implemented. Accountability is well-defined across the board with identified benchmarks for performance and appraisal.

Total quality management is practised, with emphasis on team work engineered by people management. Performance is evaluated and appropriate action taken when aberrations are detected. High performance is rewarded. Brand-building is the hall-mark. These organisations are alive to the market developments around. Customer-orientation is total – with both internal and terminal customers. Each of these enterprises have shown high levels of performance.

The fascinating facts about their performance and modes of management must establish beyond any doubt that the professional enterprise model, dissociated from ownership, are well-tested in India over a period of time. The vital question is that if these can function as effectively as these have without being controlled either by a private business house or the government, why does the government have to look for privatisation (as distinct from disinvestment) of robust economically strategic public enterprises.



A standard model can emerge from these. A standard model, nonetheless, does not mean that it has to be an inflexible model. The size, complexity of technology, the industry context, market spread, strategic alliances have an impact on what is the most workable model for a given market-industry-technology configuration. It will grow and acquire greater maturity as experience is gained.

# 9

# The Professional Enterprise Model

Based on the experience of the professional models in India, a professional enterprise model (acronymically styled as PrEM), which imbibes the distinctive and essential elements of a professional organisation, may now be attempted. Optimally, a professionally strategic enterprise model is an organisation which is professionally promoted, professionally structured, professionally manned and professionally managed. One missing link in the chain, and the results will be illusory, self-eroding. Translated into an operational mode, it takes on a form which possesses the following configuration.

**A. *Ownership and Control***

The critical premise of a PrEM undertaking is that the government should cease to be a stakeholder, at least as a dominant stakeholder, in all commercially-oriented enterprises. It is also obvious that the government holdings cannot be sold in a short span of time while disinvestment cannot wait for an extended time-frame. There could be a way out. The government stake is transferred to a specially constituted public investment fund (PIF) or trust (PIT) – by whatever name called. Should the government find it financially productive to invest its surplus resources in a specific venture, it will be government's decision to invest, keep invested or withdraw investment through the instrumentality of PIF. The government as such will not hold any shares except may be during the transitional phase. Further, the government controlled agencies, apart from PIF, will not hold collectively more than 26% equity in a transformed PrEM undertaking.



In the initial stages, PIF will enter into an agreement by which the government will be paid the consideration of the acquired shares in the form of bonds (or other forms of securitisation), carrying interest and providing for redemption maturing over a period of, say, 10 years. Bonds could be re-financed by financial institutions and banks, domestic or foreign, if necessary. The redemption of bonds and payment of interest will together constitute revenue streams to the government on capital and revenue accounts. It is anticipated that the aggregate could exceed Rs 150 to 200 bn annually until all bonds are redeemed. (That is in conformity with the revenues which the Planning Commission envisions to be generated from disinvestment programme during the Tenth Plan). Should it be considered necessary, some minor part of the holdings may be retained by the government, preferably not. In transferring the shares to the PIF, the shares will be evaluated at their fair market value. A fair market value could be stock market quotations during the preceding six months or book values where the shares are not listed. The issue of bonds would raise a problem of the fair and reasonable pricing of the shares. The transfer of shares will, therefore, incorporate an arrangement by which the government will share the deviation (profit or loss) with PIT when the shares acquired are sold to any third party, including a CPE.

The trust will, no doubt, need a corpus fund of its own, besides holding assets in the form of shares of existing CPEs. This corpus should be contributed by government, financial institutions, PSUs enjoying good liquidity, international financial institutions and even private corporates. The government's share should be less than 50%, preferable not exceeding 25%.

Anywhere up to 50% of the equity capital – preferably much less – in any one PrEM undertaking may be held aggregatively by independent financial institutions, mutual funds. FIIs (Foreign Institutional Investors) may participate to the extent permissible under public regulations but not exceeding 26%. Participation of small and medium investors will be encouraged, which could be substantial. Other private investors will, of course, be offered equity

but no individual entity or a group should normally hold more than 10% of the total voting stock. The shareholdings in a PrEM undertaking may be acquired by other PrEM undertakings. No single shareholder (including PIF) will have an equity stake exceeding 26%. If the stake of one shareholder exceeds 10% in any PrEM undertaking, there will, preferably be a minimum of one (or more) substantial countervailing shareholders (with stakes exceeding 10%).

The balance of the equity will be distributed among the employees and other private non-substantial shareholders, individuals or others. Preferably, the employees' stake will be acquired through ESOP or a preferential allotment mode. The shares so allotted should normally have a lock-in-period of, say, three years. A model ESOP should be evolved by PIF. However, every undertaking will be free to amend and modify the scheme in accordance with its corporate policy. ESOP will, obviously, have the necessary provisions on vesting period, option period and exercise price.

Strategic alliances will be forged as and when necessary to make the enterprises globally competitive. Strategic partners could be domestic (including other PrEM undertakings) and foreign organisations with or without equity stake.

**B.** ***Corporate Governance***

The PrEM model, in order to conform to the professional structure and dynamics, will undoubtedly call for a Board-managed corporate management matrix. This means, in essence, that all business decisions shall be taken by the Board subject, where necessary, to the approval by the shareholders in a General Meeting (Annual or Extraordinary, as the case may be).

Subject to the provisions of the Indian Companies Act, the members of the Board including the Chairman, Managing Director and Executive Directors (wholetime Directors, by whatever name called) will be elected by normal procedures of election as defined in the Articles of Association of the corporate. The major



shareholders will elect the Directors by mutual consent. The formal election will, of course, take place at the General Meeting of the shareholders. There will be no nominees as such of any institution (shareholder or not), including the government or a government-related institution, while there will be no prohibition on such representation if so elected in the normal course by the shareholders. In any event, no serving government officer *as such* will be nominated or elected as a Director. What is critical is that the incumbent acts as a Director of the organisation as distinct from being an official of the government. The two functions must be exclusive.

Shares of PrEM undertakings will be listed on stock exchanges. All guidelines of corporate governance as developed by SEBI and enforced by the accredited stock exchanges (such as tbe Bombay Stock Exchange or the National Stock Exchange) will be scrupulously followed. In accordance with the guidelines related to corporate governance, the Board will constitute, among others, what are termed as Audit and Compensation Committees. The appellation of the Audit Committee should be changed to Management Audit Committee and that of Compensation Committee to Nomination and Compensation Committee. The present functions assigned, in particular to Audit Committee, are too mundane to make an impact.

The Management Audit Committee should go beyond the functions of normal accounts and audit and be proactive in evaluating important management decisions of the Board. It should also go deeper into corporate management. However, the latter function will be guided by the principle of 'management by exception'. These committees should have a majority of professional non-Executive Directors.

All appointments, other than of non-executive Directors, will be made on the basis of recommendations of the Nomination and Compensation Committee. However, for appointments below the position of Directors, appropriate empowerment will be made at different levels.

C. *Management Policies and Systems*

The Board will carve out corporate mission with the full involvement of the entire workforce and set a vision for the undertaking. It will review periodically whether it is moving in that direction and whether any change is needed.

The entire organisation shall accept it as a matter of faith that it has a mission – mission to serve all stakeholders, namely, investors, working people, customers, lenders, suppliers and last but not the least, the society at large. Every Director will be a shareholder, whether by direct subscription (preferential allotment or not) or through ESOP.

Since the transformed PrEM undertaking is to be a Board-managed institution, no outside directives will be issued to the Board to take – or refrain from taking – certain decisions. Nonetheless, certain policy guidelines in the form of code of conduct could be issued as a part of broad governmental policy or consensus developed by PIF. Since it is proposed in the PrEM enterprise model that the government stake in equity will be routed through a Public Investment Fund (or Trust), the right of shareholder for the shareholding in its name will be exercised by the PIF or Trust, as the case may be.

The CEO, in association with Executive Directors and management at all levels, will develop a medium term Corporate Plan and set targets for different functions of the undertaking. The medium term corporate plan will be approved by the Board. The CEO, along with other Executive Directors, will prepare, under the framework of the Corporate Plan, Annual Plans and Budgets and present the same to the Board before the commencement of a financial year.

Strategic planning will be the key to performance, which will include corporate architectural restructuring, policy redirection and financial reform. The undertaking will not hesitate to lose its identity by merger, amalgamation, even closure, when the situation so



demands. The exigencies of global competition demand that it does not have to exist in the same form in perpetuity.

The undertaking will be free to forge or withdraw from strategic alliances – partial or total – and to acquire other organisations with a synergy which conforms to its vision. For such action it seems appropriate to seek shareholders' approval – but not government clearance, unless the latter is a part of common law and regulations and is applicable to other similar organisations in whatever sector.

The PrEM undertaking will establish from its very inception a safety net for its workforce (covering the lowest) so that it is not constrained by flab. It ensures that any employee committed to it for whatever period is not handicapped under the worst of circumstances – even when he has to make the exit.

The PrEM corporate will operate with a clear undertaking that it has to be competitive on its own and will not expect any assistance, financial or non-financial, from government or any source, except what is available to any undertaking similarly placed or the government desires to extend it to meet some economic or social objective.

The PrEM undertaking will take it as a basic premise that no budgetary support will be available from government unless the government decides as an independent decision with or without the concurrence of the Planning Commission or any other statutory or constitutional body that the state desires the investment (in the form of equity or lending) to be made in a specific project. In special cases – and where the government is willing – it could seek the support of sovereign guarantee or any other form of collateral support. This support, however, will not be taken for granted.

**Acceptability and Convergence**

Once the PSU is geared to the design outlined here, it would function on its own. It will not involve the state. While, on the one hand, it will ensure adequate returns on the investments already

made by the government, it will, on the otber, absolve the government from making financial commitments and insulate it against the oscillations of financial returns. The adoption of this model will not need the handing over of PSUs to private operators with highly varying performance – financial, economic and ethical. The model will conform to new dictates and demands of corporate governance and make the professionally-geared public enterprises truly global in their vision and globally competitive in their techno-economic strengths. The model will be politically more acceptable and should be welcomed by the workers.

This model should be satisfying even to private enterprise since it tends to transform the public sector enterprises into a model which is akin to a reformed – repeat *reformed* – private sector corporate model. While it will free private enterprise from transferring huge capital resource to the government for acquiring public enterprises, good and performing private sector, under corporate governance, will move towards that model.

A galaxy of such enterprises will create the most propitious, not only hospitable, environment in India for the creation of knowledge-based economy in the fast developing global scenario.



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