
Role of Public Sector Undertakings in Competitive Environment

Dr. Harsha Sharma

Amity University, Gurgaon

Abstract

Globalization has turned whole world into a single economy, thereby into competitive economy. The enterprises have succeeded to survive in the changed environment with the adoption of latest and most of the efforts have been informal, implicit and thus less effective. During the time of independence, India was underdeveloped and backward – an agrarian economy with weak industrial base, low level of savings, high rate of unemployment, investment and absence of infrastructural facilities. Indian economy needed a big turn. This could not come from the private sector because of their inability to take risk and lack of funds. Thus, government intervention through public sector was necessary for economic growth and to overcome economic and social backwardness. The research paper emphasis on the role played and contribution made by Public Sector Undertakings in the nation's growth and development and stating the contentious issues related to their working.

Key Words: *Globalization, Competitiveness, Economy, Liberalization*

INTRODUCTION

The era of Globalization has provided new opportunities to the industries and firms. Simultaneously it has brought new threats to many industries and firms turning whole world into a single economy, thereby turned into competitive economy. With the adoption of latest technology and dynamic economic environment many of the enterprises have succeed to survive in the changed environment and most of the efforts have been informal, implicit and thus less effective. The succession of the new economic millennium provides that only successful competitive firms can survive and noncompetitive firms may become less effective and disappear with the time.

Competitiveness is the ability of an enterprise to operate effectively and efficiently in relation to other similar enterprises. Competitiveness can be used to describe the whole economic performance of a company, a group of companies or a nation, particularly in its level of productivity, in its ability to export its goods and services and in its maintenance of high standard of living of citizens and its overall economic development. Competitiveness can be analyzed at three levels in an economy as company competitiveness, Industry competitiveness and country competitiveness. The present study examines the competitiveness of the Public Sector Undertakings (PSUs) and their role in growth and development of an economy.

Advent of Public Sector Undertakings (PSUs) and their growth since Independence in India

PSUs play an essential role in India's Industrialization growth and development. The importance of public sector in Indian Economy can be recognized prior to independence when nation was grappling with grave socio economic problems, such as low levels of employment, low savings, inequalities in income, lack of trained manpower, regional imbalances in economy, weak industrial infrastructure facilities etc. Thus the roadmap for Public Sector was developed as a tool

for self-reliant economic growth and development. The country used the planned and systematic economic policies for development which necessitated the development of PSUs.

The evolution of PSUs can be studied into three phases: The pre Independence; The post-Independence; the post Liberalization period. The next could perhaps be the one that is following the global economic crisis recently. During the era of Pre Independence public enterprises were very few like the railways, the port trust, the ordinance factories, the post and the telegraph, all India radio etc. Earlier, the public sector was confined to strategic and core industries, during the era of post-Independence i.e. the second phase witnessed takeover of sick units from private sector, nationalization of industries and entry of public sector into fields like consultancy, manufacturing consumer goods, transportation, contracting etc.

In 1956 the Industrial Policy Resolution was implemented. In 1969, nationalization of 14 major banks envisaged the growth of Public Sector Undertakings and provided a new era. The Industrial Licensing Policy 1970 put certain restrictions on undertakings of large Industrial houses, on the basis of assets exceeding Rs.350 mn. Monopolies and Restrictive Trade Practices Act(MRTP) 1969 comprised the definition of large industrial houses and companies whose assets exceed Rs. 200 mn.

The statement on Industrial Policy 1991 was also very crucial and brought fundamental changes in the MRTP Act as well, and revised the priority of the public sector.

Public Sector Undertakings can be classified as

- Public Sector Enterprises(PSEs)
- Central Public Sector Enterprises(CPSEs)

Also classified into 'Strategic' & 'Non -Strategic'. Areas of Strategic CPSEs are:

1. Arms and Ammunition
2. Atomic Energy(except in areas to the operation of nuclear power and use of radiation and radio-isotopes to medicine, agriculture and non-strategic industries)
3. Railways transport

All other CPSEs are considered as 'non-strategic'

- Public Sector Banks(PSBs)

Public Sector Undertakings(PSUs) contribution in Indian Economy

1. Contribution in the Acceleration of the Economic Growth Rate

The Public sector contribution and systematic planning are required to accelerate the process of economic growth. Through effective economic planning and expansion of public sector it would be possible to break the vicious circle of poverty and accelerate the rate of economic growth. Due to the involvement of huge investment and risk private enterprises were not willing to operate in certain fields.

2. Contribution in the Central Exchequer

The Public sector undertakings are contributing a good amount of resources to the central exchequer regularly in the form of dividend, custom duty, excise duty, corporate taxes etc. During the Sixth Plan, the contribution of public enterprises to the central exchequer was to the tune of Rs. 27,570 crore.

3. Contribution towards the Employment Generation

Public sector plays an important role in generating employment opportunities in the country.

The Public sector employments are of two categories, i.e:

- Public sector employment in government administration, defence and other government services and
- Employment in public sector economic enterprises of both Centre, State and Local bodies.

Millions of employment opportunities were created by public sector that minimized the problem of unemployment in the nation. Apart from ensuring the job security, this sector accounts for approximately two third of the country's total employment.

4. Contribution to the FOREX Earnings

PSUs are increasingly focusing on international trade in goods and services, which directly has a bearing of average 10 percent in last five years on the foreign exchange earnings of the country. Exports of goods and services were ` 1, 03,071 crore in 2014-

5. Contribution towards the Gross Domestic Product

PSUs growth leads to the overall growth of the country, recording a GDP at current prices increased from `1,13,45,056 crore in 2013-14 to ` 1,25,41,208 crore in 2014-15 with a growth of 10.54%.

MAHARATNA/NAVRATNA/MINIRATNA STATUS FOR PUBLIC SECTOR UNDERTAKINGS:

Delegation of financial powers

The Board of Directors of a PSEs exercise the delegated powers issued by Government from time to time. The status of Maharatna, Navratna, Miniratna to CPSEs is provided by the Department of Public Enterprises to various Public Sector Undertakings. These prestigious titles provide them greater autonomy to compete in the global market.

The Government has granted powers to the Boards of Maharatna, Navratna, Miniratna and other profit making enterprises

Maharatna

A company qualifying for the Maharatna- should have an average annual turnover of Rs 20,000 crore during the last three years against Rs 25,000 crore prescribed earlier. The average annual net worth of the company should be Rs 10,000 crore.

The status Maharatna empowers mega CPSEs to expand their operations and emerge themselves as global giants. The coveted status empowers the boards of firms to take investment decisions up to Rs 5,000 crore as against the present Rs 1,000 crore limit without seeking government approval. The Maharatna firms would now be free to decide on investments up to 15% of their net worth in a project, limited to an absolute ceiling of Rs 5,000 crore.

Navratna

The Central Public Sector Enterprises (CPSEs) fulfilling the following criteria are eligible to be considered for grant of Navaratna status:

- Having Schedule 'A' and Miniratna Category-1 status.
- Having at least three 'Excellent' or 'Very Good' Memorandum of Understanding (MoU) ratings during the last five years.

The Navratna status empowers PSEs to invest up to Rs. 1000 crore or 15% of their net worth on a single project without seeking government approval. In a year, these companies can spend up to 30% of their net worth not exceeding Rs. 1000 cr. They also enjoy the freedom to enter joint ventures, form alliances and float subsidiaries abroad.

Miniratna Category

- category I status, the CPSE should have made profit in the last three years continuously, the pre-tax profit should have been Rs. 30 crores or more in at least one of the three years and should have a positive net worth. For category II, the CPSE should have made profit for the last three years continuously and should have a positive net worth.
- Category II Miniratnas have autonomy to incurring the capital expenditure without government approval up to Rs. 300 crore or up to 50% of their net worth whichever is lower.

Top ten profit making CPSEs

Oil & Natural Gas Corporation Ltd., Coal India Ltd., and NTPC Ltd., were ranked first, second and third respectively amongst the top ten profit making CPSEs contributing 22.72%, 17.15% and 13.19% respectively to the total profit earned by profit making CPSEs during the year 2014-15. Bharat Petroleum Corporation Ltd. has entered in the top ten profit making CPSEs, on the other hand ONGC Videsh Ltd. has gone out from the list of top ten profit making CPSEs. The top ten profit making companies claimed 59.87 % of the total profit made by all the (157) CPSEs during the year.

Sl. No.	CPSE Name	Net Profit 2014-15	% share
1	Oil & Natural Gas Corporation Ltd	17732.95	22.72
2	Coal India Ltd	13383.39	17.15
3	NTPC Ltd	10290.86	13.19
4	NMDC Ltd	5959.33	8.23
5	Power Finance Corporation Ltd	5273.03	7.64
6	Indian Oil Corporation Ltd	5259.87	6.76
7	Rural Electrification Corpn. Ltd	5084.51	6.74
8	Bharat Petroleum Corporation Ltd	5084.51	6.81
9	Power Grid Corporation of India Ltd	4979.17	6.38
10	South Eastern Coalfields Ltd	3659.93	4.69
	Total (1 to 10)	78044.90	59.87
	Net Profit of Profit making CPSE	130362.50	100.00

Source : Public Enterprises Survey 2014-2015 : Vol – I

Challenges and Concern

While PSUs are poised for growth and are witnessing considerable rebound, there are still roadblocks that restrict their growth. Some of these are:

- Lack of proper corporate governance structure which inhibits the transparency and functioning of the enterprises.
- Need of proper benchmark in terms of their capabilities and offerings with private enterprises so as to remain competitive to the pace of Industry.
- Development and management of manpower to have right pool of human resource so that they can work as a catalyst for a PSUs growth
- PSUs don't enjoy the financial autonomy unlike their private counterparts which delays decision making. Thus seeking approval can be arduous task for PSUs.
- Due to the interference of the political parties and often a clash with the objectives of PSUs may impair their autonomy and growth.



Conclusion

PSUs undoubtedly extended their eminent contribution in making strong industrial base for overall development of Indian economy. In order to ensure continuous development of Indian economy to achieve new heights and emerge as a superpower economy, it is essential for PSUs to maintain global competitiveness and achieve market leadership. PSUs have given eminent contribution to the government under GDP, Central Exchequer, Foreign Exchange Earnings, employment opportunities in organized sectors, contributed towards the growth of Market Capital etc. A number of PSUs serve the socio-economic objectives. Keeping pace with the global competitiveness PSUs in India have adopted planned policies like Disinvestment, MoU, Restructuring, etc

References

1. Ahluwalia, Isher J. (1993). Productivity and Growth in Indian Manufacturing, part of Recent Developments in Indian Economy: With Special Reference to Structural Reforms, Part 2. New Delhi: Academic Foundation. p. 25. ISBN 9788171880942.
2. Baldev Raj Nayar, Globalization And Nationalism: The Changing Balance Of India's Economic Policy, 1950–2000 (New Delhi: Sage, 2001)
3. http://www.indianjournals.com/glogift2k6/glogift2k6-1-1/theme_4/Article%207.htm
4. <http://jamsheedme.blogspot.in/2012/03/role-of-public-sector-in-indias.html>
5. Momaya K, 2001, International Competitiveness: Evaluation and Enhancement, Hindustan Publishing Corporation