Chapter 2
Public Sector Enterprises in India:
An Overview

Abstract This chapter highlights the significant role played by public sector enterprises (PSEs) in shaping the path of the Indian economic development. It also delineates changes since the 1990s after the liberalization and globalization of Indian economy, key sectors for PSE operations (such as balanced regional development, increasing employment opportunities, concentration of economic power, export promotion and import substitution, research and development, etc.), operational excellence initiatives adopted by PSEs, and the contribution of them towards Indian economy.

Keywords Public sector enterprises (PSEs) • Economic growth • Key sectors • Balanced development • Corporate governance • Corporate social responsibility and environment excellence

2.1 Introduction

Central public sector enterprises (henceforth, referred to as PSEs) have been established, managed, and controlled by the Government of India as government companies (under the Companies Act or statutory corporations under the specific statues of Parliament). In these enterprises, the Central Government holding in paid up share capital is more than 50%. The government has used these public enterprises as an instrument for attaining self-reliant economic growth, and over the years they have played an eminent role in the sustainable growth of Indian economy.

The importance of public sector in the Indian economy has been recognized since 1948. The public sector in India, since then, has experienced a phenomenal growth both in terms of number and volume of investment. The government has made sustained efforts to break the vicious circle of poverty and underdevelopment by setting up public sector enterprises or by nationalizing certain key industries.
Since inception, PSEs have been the mainstay of the Indian economy and were set up with the mandate to:

1. Serve the broad macroeconomic objectives of higher economic growth.
3. Facilitate long-term equilibrium in the balance of payments.
4. Ensure stability in prices and create benchmarks for prices of essential items.
5. Promote redistribution of income/wealth and balanced regional development.
6. Create employment opportunities.

Historically, PSEs assume significant importance to India’s economy, in both pre- and post-independence period. In the pre-independence era, the PSEs were confined primarily to select sectors including railways, posts and telegraphs, port trust, ordnance factories, etc. Post-independence era was characterized by an agrarian economy with a weak industrial base, regional imbalance in economic development, low level of savings, inadequate infrastructure facilities, and considerable inequality in income and levels of employment; thus, the development of public sector enterprises was identified as a key driver for self-reliant economic growth in the absence of significant private capital. Consequently, the Industrial Policy Resolutions 1948 and 1956 laid emphasis on constituting public enterprises by the Central Government for industrial development in the core sectors.

As a result of the initiatives taken during the five-year plans, the role of PSEs in terms of contribution to the Indian economy has increased manifold. The number of PSEs as of 31 March 2009 was 246, with a total capital employed of nearly Rs. 5.3 lakh crore,\(^1\) raised to 260 on 31 March 2012, with a total capital employed 13.43 lakh crore as against 5 PSEs having a total investment of Rs. 29 crore on the eve of the First Five-Year Plan (April 1951).

With the onset of economic reforms in 1991, the Government initiated a systemic shift to a more open economy with greater reliance on market forces and a larger role of the private sector including foreign investment. Accordingly, the PSEs were exposed to competition from domestic private sector companies as well as large multinational corporations. Given the competitive environment, the PSEs undertook significant initiatives for upscaling technologies and capacities in order to operate at par with the private counterparts in the liberalized economy. The continued focused efforts towards achieving excellence have helped several of the PSEs to become self-reliant and to play a critical role in building the Indian economy.

It may not be out of context to mention that many of today’s success stories in the developing world began life as state-owned enterprises (SOEs). In France, for instance, Renault, Alcatel, EdF, Thomson, and Elf were SOEs for a long time, as were Rolls-Royce and British Aerospace in the UK. In the Indian context also, consequent to the initiatives taken during the five-year plans, the role of central PSEs in terms of contribution to the Indian economy has increased manifold.

\(1\) 1 crore = 10 million.
Given the unique features of PSEs, the underlying heads describe the role of PSEs in India, changes in PSEs since 1990, key sectors of their operations, initiatives adopted for operational excellence, and key contribution to the economy.

2.2 The Role of Public Sector Enterprises in India

The following arguments may be put forth in support of the PSEs (public sector) in India in spite of their criticism on account of inefficiency, government controls, lack of professionalism, etc.

2.2.1 Catalyst of Acceleration of the Rate of Economic Growth

Originally, the activities of the public sector enterprises were limited to a definite field of basic and key industries of strategic importance. There were certain fields where the private enterprises were shy to operate as they involved huge investment and risk. It was the public sector alone which could build the capital-intensive infrastructure such as power, transport, etc. Since then the ideological objective of capturing the “commanding heights” by the public sector appears to be fulfilled. It not only has succeeded in creating the necessary infrastructural base for sustained industrial growth but also has tremendously boosted the technological capabilities.

The public sector enterprises have firmly established the foundation for the construction of a self-generating industrial economy. During the planned era, the public sector has diversified its activities to cover a wide spectrum of industries. Today, the public sector in India has entered into the production of consumer goods such as bread, paper, watches, scooters, T.V., cement, and drugs. Some of the researchers are of the view that the public sector should now enter the fields of distribution and rural development as well.

2.2.2 Development of Capital Intensive Sector

The industrial development of a country necessitates a strong infrastructural base. This foundation is provided by the development of capital-intensive industries and the basic infrastructure. Historically, in India, the private sector neither had the zeal nor the capacity to invest in such infrastructural activities. From this point of view, the public sector in India has earned a magnificent record. The State has successfully implemented various schemes of multipurpose river projects, hydroelectric projects, transport and communication, atomic power, steel, etc. It has significantly contributed in the fields like nuclear power or steel technology, aeronautics, defense materials, ship building, etc.
2.2.3 Development of Agriculture

The public sector has played an important role in the field of agriculture as well. It has assisted in the manufacture of fertilizers, pesticides, insecticides, and mechanical implements used in agriculture. Through the various research institutes, the public sector has augmented agricultural productivity by introducing new high-yielding variety of seeds, preventing crop diseases, and innovating new agricultural practices.

2.2.4 Balanced Regional Development

In the pre-independence period, a major problem was regional economic disparities. There were certain areas with heavy concentration of industrial activity. On the other hand, there were certain backward areas which went without industries. Industrial development was highly lopsided. States such as Maharashtra, West Bengal, Gujarat, and Tamil Nadu were industrially developed, while states like Orissa, Assam, Bihar, and Madhya Pradesh were highly backward. Besides, industries used to be gravitated towards the metropolitan areas, rather than the smaller towns. As stated earlier, this has led to imbalanced economic development; from social point of view, it is as bad as underdevelopment.

Through the extension of PSEs, the government desired to remove such regional imbalances. The State, consequently, participated in the industrial growth of the less developed areas by setting up public enterprises in those areas. While locating new public enterprises, the claims of the relatively backward areas have been given due consideration. The policy of dispersal of industries aims at removing regional disparities. A conscious attempt has been made in the successive five-year plans to accelerate the development of relatively backward areas.

2.2.5 Increasing Employment Opportunities

The growth of the public sector has led to the expression of gainful employment opportunities. In addition to the primary effect in creating employment opportunities, public sector investments also have a multiplier effect on other sectors of the economy. This has a beneficial effect on the total employment position. In 1960–1961, the number of people employed in public enterprises was only 1.82 lakh.\(^2\) This figure rose to 7.01 lakh in 1971–1972 (excluding casual workers) involving an increase of 385%. In 2011–2012, the number of working population in these industries stands at 13.98 lakh (Public Enterprises Survey 2004–2005 and 2011–2012).

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\(^2\) 1 Lakh = 100,000.
2.2.6 Model Employer

Researchers have observed that in India “the State has inaugurated the era of the model employer in contrast to the employer with a feudal outlook. It has laid down guidelines for employer-employee relations and for developing good and efficient personnel.” The public sector has been the pacesetter in the field of labor welfare and social security.

The government aims at establishing an industrial democracy in order to provide a fair deal to the workers. The public enterprises have been investing liberally on matters pertaining to labor welfare and social security. Not only the wages have been substantially increased, the conditions of service have also been improved. For instance, wages in the coal industry have nearly trebled since nationalization.

2.2.7 Preventing Concentration of Economic Power

Preventing private monopolies and concentration of economic power is the avowed objective of economic policy (in India). Nationalization is considered as an antidote for the concentration of economic power in private hands. Today, the public sector not only occupies the commanding heights in the economy; it has also penetrated into the production of essential consumer goods. The share of the public sector in the overall industrial production has substantially gone up. This has effectively curbed the concentration of economic power. It has created a countervailing force against the growth of larger industrial houses.

2.2.8 Export Promotion and Import Substitution

The public sector enterprises are substantially contributing to the country’s export earnings. The public sector has built up a reputation abroad in selling plants, heavy equipments, machine tools, and other industrial products. They have created goodwill in the third world countries for their consultancy services and technical know-how. Now public sector exports also include consumer goods and export of merchandise.

They have also succeeded in their efforts in import substitution. Today, many commodities – starting from basic drugs to highly advanced equipments – are manufactured in public sector, which previously used to be imported from abroad. In certain fields, public enterprises were specially started to achieve self-sufficiency and to reduce imports from abroad. This has resulted in saving of precious foreign exchange. At present, there is a special drive in the public enterprises to utilize indigenous materials and domestic skill.
2.2.9 Research and Development

Today no country can industrially prosper without research and development. Such research is essential not only for the introduction of new goods and new technologies of production but also for lowering the cost of production and improving the quality of the product. In this respect also, the public sector is playing a crucial role. A lot of research activities are being carried on in the laboratories of the public sector organizations.

2.2.10 Mobilisation of Resources

The public sector enterprises have played an important role in financing the planned development of the country. They have significantly contributed to the Central Exchequer in the form of interest and various taxes (Table 2.1). Besides this, an increasing trend in the generation of internal resources has been witnessed in these enterprises. As per some estimates in the total capital formation of the country, more than 50% is contributed by the public sector.

2.3 Changes Since the 1990s

With the economy embarking on the process of liberalization, privatization, and globalization since the early 1990s, the role of the Indian public sector has subsequently undergone a rapid change. The integration of the domestic economy with global markets has thrown up a plethora of opportunities and challenges. Some of the public sector enterprises with strategic vision are actively exploring new avenues and have increased their activities to go in for mergers, acquisitions, amalgamations, and takeovers and for creating new joint ventures.

Table 2.1 Taxes and duties paid by Central PSEs to the Government, 2007–2008 to 2011–2012

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<tr>
<td>I</td>
<td>Excise duty</td>
<td>61,165.14</td>
<td>57,755.25</td>
<td>52,641.5</td>
<td>63,261.89</td>
<td>68,932.2</td>
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<td>II</td>
<td>Custom duty</td>
<td>11,518.43</td>
<td>19,958.12</td>
<td>6,903.19</td>
<td>8,704.53</td>
<td>13,385.59</td>
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<td>III</td>
<td>Corporate tax</td>
<td>44,358.47</td>
<td>40,324.23</td>
<td>38,155.49</td>
<td>35,338.55</td>
<td>40,670.64</td>
</tr>
<tr>
<td>IV</td>
<td>Dividend tax</td>
<td>6,093.33</td>
<td>7,477.39</td>
<td>9,524.65</td>
<td>4,211.67</td>
<td>4,434.41</td>
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<tr>
<td>V</td>
<td>Sales tax</td>
<td>2,234.09</td>
<td>2,294.71</td>
<td>2,664.62</td>
<td>2,546.79</td>
<td>2,640.84</td>
</tr>
<tr>
<td>VI</td>
<td>Other duties and taxes</td>
<td>3,394.57</td>
<td>3,980.27</td>
<td>9,642.41</td>
<td>17,533.62</td>
<td>15,757.59</td>
</tr>
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Total   | 128,764                      | 131,790   | 119,531.9 | 13,1597.1 | 14,5821.3 |

Of late, disinvestment (evolved in 1991–1992) of select central PSEs has also gathered attention to meet the government’s massive social spending and bridge the economy’s growing fiscal deficit. Today, both the public and private sectors have become an integral part of the economy, with both the sectors complementing each other in strengthening the nation’s industrial landscape. However, the recent economic meltdown has initiated a debate about the way business and operations are being handled by the PSEs, especially against the backdrop where globally several corporates either have gone bankrupt or have marginally survived owing to state-sponsored bailouts. In this context, it is worth noting that the Indian PSEs have emerged relatively unscathed to register reasonable growth rates.

In addition to significant contribution towards the growth of the Indian economy, most of the PSEs have been able to ensure viable operations on a self-sustainable basis which is evident from the decline in budgetary support in terms of loans and equity from the government over the years.

The Government of India has accepted the recommendations of Arjun Sengupta Committee (introduced Memorandum of Understanding (MoU)/self-obligations) to quantify ambiguous and unaccountable socio-economic objectives of PSEs; MoU is a negotiable instrument between government (as owner) and specific PSEs, meant to bring proper coordination between accountability and autonomy; it takes into account the complexity of fusing social and financial objectives into measurable terms. MoU is used as a document that clearly specifies the intentions, obligations, and mutual responsibilities of both the parties; as a result, it enhances operational efficiency of an organization to face the competition and forthcoming challenges. It is aimed at converting management from control and procedures to results and objectives (details are described in Chap. 7). Performance of PSEs in this regard is presented in Table 2.2.

### Table 2.2 Summary of grading the performance of MoU signing CPSEs, 2005–2006 to 2011–2012

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<tr>
<td>Excellent</td>
<td>49</td>
<td>46</td>
<td>55</td>
<td>47</td>
<td>74</td>
<td>67</td>
<td>76</td>
</tr>
<tr>
<td>Very good</td>
<td>32</td>
<td>37</td>
<td>34</td>
<td>34</td>
<td>30</td>
<td>44</td>
<td>39</td>
</tr>
<tr>
<td>Good</td>
<td>15</td>
<td>13</td>
<td>15</td>
<td>25</td>
<td>20</td>
<td>24</td>
<td>33</td>
</tr>
<tr>
<td>Fair</td>
<td>6</td>
<td>6</td>
<td>8</td>
<td>17</td>
<td>20</td>
<td>24</td>
<td>25</td>
</tr>
<tr>
<td>Poor</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>102</td>
<td>102</td>
<td>112</td>
<td>124</td>
<td>145</td>
<td>161</td>
<td>175</td>
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#### 2.4 Key Sectors for PSE Operations

Based on the Public Enterprises (PE) Surveys, more than 80 % PSEs operate in five sectors/cognate groups, namely, (1) agriculture, (2) mining, (3) manufacturing, (4) electricity, and (5) services (Public Enterprises Survey 2011–2012).
The analysis of the market share of the PSEs further shows that, within these sectors, the key industries where PSEs have significant/dominant share include (1) coal and crude oil in the mining sector; (2) steel, petroleum (refinery and marketing), fertilizers, and heavy engineering in the manufacturing/processing sector; (3) power generation in the electricity sector; and (4) telecommunications, transport, and contract and construction in the service sector. The following brief discussion on each of these key sectors is self-explanatory:

### 2.4.1 Coal

With a view to enable investment of public funds to enhance growth in the coal industry and to optimize available coal resources and improve mining standards and working conditions, the industry was nationalized in the early 1970s. Consequently, the coal industry has been dominated by the PSEs under the Central and State Government. Nine public enterprises belong to the coal and lignite group, the prominent being Coal India Ltd., Central Coalfields Ltd., Eastern Coalfields Ltd., etc. (refer to Annexure 4A.1 for the list of these enterprises).

### 2.4.2 Oil and Natural Gas

Crude oil and natural gas is another industry within the mining sector characterized by significant presence of PSEs. However, with the introduction of New Exploration Licensing Policy in 1999, the industry has witnessed significant change with private players gradually gaining foothold in the industry. There are 13 PSEs in this domain (refer to Annexure 4A.1 for the list of these enterprises).

### 2.4.3 Power Generation

With the National Electricity Policy aiming at the accelerated development of power sector in India, power generation has witnessed significant growth with total generation being 723.8 BU in financial year 2009, registering a compound annual growth rate of 5.5% during financial years 2005–2009. While there has been an increased emphasis laid on diversifying the energy sources like biomass, solar, wind, etc., in recent years, thermal power generation continues to dominate with over 80% contribution to the power generation in India; the list includes National Hydroelectric Power Corp. Ltd., National Thermal Power Corp. Ltd., North Eastern Electric Power Corp. Ltd., and Nuclear Power Corp. of India Ltd.
2.4.4 Telecommunications

Telecommunication services in India, encompassing both wire line and wireless connectivity, have witnessed unparalleled growth by global standards in the last decade with the country emerging as the second largest market in the world in wireless connectivity. According to Telecom Regulatory Authority of India, the total subscriber base currently (2011–2012) is over 650 million with wireless connectivity accounting for around 94% of the total subscriber base. While wireless connectivity is primarily dominated by the private players, the PSEs have a strong foothold in wireless connectivity; they are Bharat Sanchar Nigam Ltd., Mahanagar Telephone Nigam Ltd., Millennium Telecom Ltd., and RailTel Corporation of India Ltd.

2.5 Representative Operational Excellence Initiatives Adopted by PSEs

As highlighted earlier, the PSEs continue to have a dominant/significant share in several sectors/industries on account of their continued efforts towards achieving competitiveness and excellence to operate at par vis-à-vis their private sector counterpart. Some of the key operational best practices embraced by PSEs in their quest towards maintaining market share as well as being corporate citizens may be categorized as follows (seminar by Indian Chamber of Commerce 2010):

1. Corporate governance,
2. Organizational development/Human resource management,
3. Streamlining business processes and practices,
4. Environment excellence,
5. Corporate social responsibility, and
6. Empowerment with due accountability.

2.5.1 Corporate Governance

Most established codes of corporate governance for PSEs, including the OECD Guidelines on corporate governance to envisage a proactive role of the PSEs, include the following: (a) ensuring equitable treatment of shareholders; (b) recognizing, respecting, and reporting on relations with all key stakeholders; (c) maintaining high standards of transparency and disclosure; and (d) having requisite systems and practices for its board of directors to discharge effectively its role of guiding and monitoring the PSEs.
Most PSEs in India would compare favorably when it comes to adoption of the above measures, as they have:

(a) An active policy for communication with all shareholders for ensuring dissemination of information on key business decisions,
(b) Internal code of business conduct and ethics for ensuring ethical and transparent process in managing the affairs of the enterprise, and
(c) Obligation to ensure the representation of minority shareholders on the board of directors for assuring them that their interests are taken into consideration.

2.5.2 Organization Development/Human Resources Management

There is an increasing realization that deployment of quality human resources is critical for sustainable performance of the PSEs. Accordingly, in pursuance of attracting and retaining quality talent, most of the PSEs have taken requisite initiatives like having a succession planning policy aimed at identifying employees with leadership potential and accordingly grooming them to fit into the envisaged leadership roles.

2.5.3 Streamlining Business Processes and Practices

In order to ensure competitiveness vis-à-vis private sector players in terms of productivity, technological capability, and cost-effective operations, most of the PSEs have taken initiatives towards streamlining the business processes and practices with focus on the following:

(a) Investing in state-of-the-art technology with the objectives of (1) improving product quality, (2) enhancing productivity through streamlining manufacturing processes, and (3) achieving cost reduction.
(b) Adopting integrated IT system, including ERP packages to support reengineered business processes and enhance efficiency in decision making, through real-time information availability besides capturing transaction-level data for MIS purposes.
(c) Increased level of outsourcing, particularly non-core activities/support functions, with a view to increase focus and enhance productivity in core operations together with reduction in overhead costs of the enterprises.
(d) Increased focus on entering public-private partnership (PPP) primarily with the objective of attracting funds in sectors like infrastructure, requiring significant investments, along with requisite expertise of the private player.
2.5.4 **Environment Excellence**

The concept of environment and ecological balance has assumed a new dimension in the wake of increasing levels of deforestation, waste generation and environmental pollution. Most of the key PSEs have taken a lead role towards achieving environment excellence with initiatives such as:

(a) Having a dedicated environment department/cell focusing on environment-related initiatives.
(b) Preventing the use of or generation of toxic/hazardous materials which may have an adverse impact on the health of the workforce, customers, and overall community.
(c) Conserving the use of scarce and non-renewable resources such as usage of recycled water.
(d) Ensuring adequate treatment of hazardous liquid waste/solid through effluent treatment plant.
(e) Preventing wasteful use and promoting conservation of resources, especially scarce and non-renewable resources.

2.5.5 **Corporate Social Responsibility (CSR)**

The PSEs in India were set up with the objective of achieving inclusive growth aimed at ensuring equity and justice to the overall community/society. Consequently, PSEs have been pioneers in implementing corporate social responsibility (CSR) initiatives towards community growth and development while achieving their commercial mandate. Over the years, most of the PSEs have consciously and extensively promoted corporate social activities including:

1. Providing employment to the weaker and underprivileged sections of the society on a more equitable basis.
2. Providing all inclusive social facilities to the employees and their families, especially in the areas of education, healthcare, and entertainment.
3. Providing assistance to social and cultural activities beneficial to employees and associated sections of the community.
4. Participating in or contributing to the causes and activities dealing with natural disaster initiatives by PSEs.

2.5.6 **Empowering PSEs with Due Accountability**

In the era of economic liberalization and globalization, PSEs have continued to contribute significantly in building Indian economy and have demonstrated competitiveness virtually in all major aspects, viz., productivity, technological capability,
product quality, etc., vis-à-vis their counterparts, i.e., private sector players in the respective industries/sectors. Post-liberalization in 1991, the PSEs have continuously focused their efforts in keeping pace with the competitive environment to ensure economically viable operations and long-term sustainability. In the process, several PSEs have become self-reliant and have transformed into world-class organizations. The stellar performance of prominent PSEs is borne out by the fact that “out of the seven Indian companies selected in the Fortune Global 500 list for 2009, five were PSEs.”

Needless to say, such a transformation would never have been achieved by these PSEs without the support of relevant interventions by the Government. In pursuance of competing with the external environment, the Government realized the need for empowering these enterprises with a view to delegate higher financial and operational powers to provide a level playing field with the private sector players (who had the competitive advantage of taking business decisions on their own).

Accordingly, the Department of Public Enterprises, Government of India, which has been the coordinating entity has adopted a categorization framework for grouping these enterprises into (1) Navratna, (2) Miniratna I, and (3) Miniratna II, in order to facilitate the delegation of powers in line with their categorization. Taking a step forward in this direction, the Department of Public Enterprises has recently introduced a new category of Maharatna’s classification for empowering select PSEs listed on stock exchanges to facilitate the expansion of their operations and to enable them to emerge as global giants. While the government has empowered the PSEs with the objective of providing a level playing field with the private sector entities, it has also instituted a mechanism in terms of adherence to corporate governance guidelines to ensure due accountability by these enterprises for discharging their functions.

2.6 Contribution to Indian Economy

PSEs undoubtedly, since inception, have extended their eminent contribution in bringing up the industrial base for the holistic development of Indian economy. For ensuring that the Indian economy continues to scale new heights and emerges as an economic superpower, it is imperative for the PSEs to continue to demonstrate global competitiveness and achieve market leadership. As highlighted earlier, the empowerment of these enterprises by the Government has been a key enabler which has helped them in overcoming some of the operational constraints, critical for successful functioning of these organizations. PSEs, in turn, have also given their contribution to the government under the various heads (as per Public Enterprises Surveys 2011–2012 and 2007–2008) besides complying with social responsibilities assigned to them; the select list includes the following:

1. PSEs share in India’s gross domestic product (GDP),
2. Contribution to the Central Exchequer,
3. Contribution to foreign exchange earnings,
4. Contribution towards employment generation in the organized sector, and
5. Growth in market capital.

While the principles underlying some of the above interventions are already
reflected in the existing guidelines for managing PSEs in India, there is an urgent
need for implementing them in a time-bound manner so that Indian PSEs can be key
beneficiaries from emerging economic opportunities both in India and globally.

2.7 Summary

The public sector enterprises in the Indian economy are to play an important role that
needs no emphasis. They account for over 22% of the country’s GDP, around 6%
of the total employment in the organized sector, and over 20% of direct and indirect
tax collections (2011–2012). A number of PSEs also serve critical functions of fur-
thering the socio-economic objectives of the government and ensuring stability in
prices of key products and commodities.

The public sector in India has always played a dominant role in shaping the path
of the country’s economic development. Visionary leaders of independent India
drew up a road map for the development of public sector as an instrument for self-
reliant economic growth. The public sector has provided the much-required thrust
and has been instrumental in setting up a strong and diversified industrial base in the
country. Keeping pace with the global changes over a period of time, the PSEs in
India also have adopted the policies like disinvestment, self-obligation/MoU,
restructuring, etc.

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