# THE PUBLIC SECTOR —A MANAGER'S REPORT

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"People must come to accept private enterprise not as a necessary evil, but as an affirmative good."

—EUGENE BLACK

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*By*

**AIR CHIEF MARSHAL P. C. LAL (Retd.) ***

I am honoured to be invited to speak here today, in memory of Mr. A. D. Shroff, founder of the Forum of Free Enterprise.

When Mr. Palkhivala, your President, invited me to speak, my first reaction was to decline the honour, for I am no academician or economist or jurist such as your previous lecturers have been. What knowledge and experience I have is derived from serving in the Air Force and in a couple of public sector enterprises, and that too as a manager rather than as a maker of policy. Then, looking through the list of topics covered in previous lectures and giving more thought to the invitation, I felt that I might have something to contribute after all, for I found that uptodate the Forum had not heard a talk on either Defence or the public sector. Both are of some importance in our national life and deserve your consideration.

Weighing the two in my mind, I realised that while Defence was the easier subject for me to deal with, and less controversial, the effort at industrialisation through the public sector was perhaps more worthy of mention here. I say this because of the increasing number and variety of industries that are now owned by the Central Government and of the ever increasing part that they play in our lives.

* This is the text of the Eleventh A. D. Shroff Memorial Lecture delivered under the auspices of the Forum of Free Enterprise in Bombay on 4th November 1976. The eminent speaker has held with distinction several posts such as that of the Chief of Air Staff, Chairman and Managing Director of Hindustan Aeronautics Ltd. and the Indian Airlines Corporation.

I must explain at the outset that my principal purpose is to describe some of the major problems of the public sector as I see them after eight years with Indian Airlines and nearly five years with Hindustan Aeronautics Ltd. In addition, I have a passing acquaintance with a number of other public sector enterprises, both in my personal capacity and as a member till recently of the Public Enterprises Selection Board, and have heard what other senior executives have to say about their work. The more I have seen of the public sector the more aware have I become of its spread and depth and diversity, and of the strengths and weaknesses of its industries. I have neither the ability nor the time to do justice to them all in the course of one brief talk, so I must perforce restrict myself to certain general considerations which affect them all in some degree, and give you my impressions of which way they are heading. These are my personal views, of course, and they are placed before you for what they are worth: I seek neither to convert anyone to the public sector nor turn anyone away from it.

## Background

Before speaking about the problems of a manager in the public sector I must describe the background against which he works and that often affects his conduct.

One of the principal aims of the freedom movement in our country was to improve the economic condition of the common man. When Subhas Bose was President of the Indian National Congress a National Planning Committee was formed, under the chairmanship of Pandit Nehru, to study this problem. Mr. Shroff was a member of that Committee. During the Second World War, a group of Bombay industrialists, of whom Mr. Shroff was one, produced the Bombay Plan for the same purpose. After the war came the People's Plan from the Indian Federation of Labour, the Gandhian Plan and the Government's plans for reconstruction. While they differed as to how the common man's lot was to be improved they all accepted the principle of planning and control of economic activity by Government.

On achieving Independence, the new Government, in keeping with the thinking at that time, declared in its Industrial Policy Resolution of April 1948, that:

> "Any improvement in the economic condition of the country postulates an increase in national wealth; a mere redistribution of existing wealth would make no essential difference to the people and would merely mean the redistribution of poverty. A dynamic national policy must, therefore, be directed to a continuous increase in production by all possible means, side by side with measures to secure its equitable distribution."

From this starting point the Resolution went on to say that the State would "play a progressively active role in the development of industries", and that private enterprise "properly directed and regulated" had a valuable role to play in increasing production. The manufacture of arms and ammunition, the production and control of atomic energy and the ownership and management of railways were to be the exclusive monopoly of the Central Government. In addition, new undertakings in six basic industries were reserved to the State, these being coal, iron and steel, aircraft manufacture, ship-building, mineral oils and the manufacture of telecommunications equipment.

That first declaration of intent was followed by the adoption of the Constitution in January 1950, which specified the social and economic goals towards which the State was to work. The Planning Commission was set up soon after and the first Five-Year Plan was formulated. These developments called for a further clarification and redefinition of the national objective, which was given in another Industrial Policy Resolution, in April 1956, as follows:

> "The adoption of the socialist pattern of society as the national objective, as well as the need for planned and

rapid development, require that all industries of basic and strategic importance, or in the nature of public utility services, should be in the public sector. Other industries which are essential and require investment on a scale which only the State, in the present circumstances, could provide, have also to be in the public sector."

The Resolution went on to classify industries into three categories according to the part that the State would play in their development. Seventeen industries were to be the exclusive responsibility of the State, twelve were to be developed by the State and private enterprise and the remainder, unlisted, were for the private sector, though the State reserved the right to "start any industry......when the needs of planning so require or there are other important reasons for it." By throwing open the entire field of industrial activity to State-owned enterprises, the 1956 Resolution virtually became the charter for the expansion of the public sector.

Amongst the benefits expected from the enlargement of the public sector were: (a) Reduction in disparities of wealth and prevention of concentration of economic power in the hands of a few individuals; (b) Improvements in the living and working conditions of workers and raising of their standards of efficiency; and (c) Augmentation of State revenues to provide resources for further development in fresh fields.

We shall see to what extent these aims have been fulfilled.

From time to time Government spokesmen have further elaborated and explained the aims of the public sector. One of the best known of these is a statement made by the Prime Minister in a seminar in June 1966, when she said: "We advocate a public sector for three reasons: to gain control of the commanding heights of the economy, to promote critical development in terms of social gain or strategic value rather than primarily on considerations of profit, and to provide commercial surpluses with which to finance further economic development."

I expect you know that Britain, France, Italy and even the United States of America have large and powerful industries wholly owned by the State. Mostly these are public utilities, or as in Britain, they also include basic industries such as steel, coal and power generation. What makes our public sector distinctive is that it covers a much wider field and is today a major instrument for the development of industrial activity in the country.

## Growth of Public Sector

In the early years, while national aims and objectives were being formulated and clarified, public sector industries were already beginning to take shape. Nationalization of existing companies provided some of the first entrants in the field: examples of these are Hindustan Aircraft Ltd., the two national airlines and the Life Insurance Corporation. Subsequently, new enterprises were raised, including the steel plants, fertilizer factories, industries for the production of engineering goods and for the exploitation of minerals and metals. Today, the public sector produces goods and services ranging from watches and machine tools to ships and aircraft, and from consultancy to marketing, transport, tourism and the like.

There were only five public sector industries in existence at the beginning of the First Five-Year Plan (1951-56), the total investment in them being Rs. 29 crores. By the time the Third Plan was launched in 1961, there were 48 industries with an investment of Rs. 953 crores. Thereafter, by 1966 Rs. 2,415 crores had been invested in 74 industries; and at the end of 1974/75, the last financial year for which full figures are available, there were 129 enterprises representing an investment of Rs. 7,261 crores, of which more than Rs. 1,000 crores were added in 1974/75 alone. The statements at Appendix A summarize the increasing rate of growth and the pattern of investment in industries under the control of the Central Government.

The vital statistics of these industries taken as a whole over the five years 1970/71 to 1974/75 are shown at Appendix "B". It will be seen that while investment has increased by about 55 per cent, the turnover has more than trebled, from Rs. 3,309 crores to Rs. 10,217 crores, and the net profit, before tax, has increased by a factor of 15, from Rs. 20 crores to Rs. 312 crores. Return on paid-up capital was 4.9 per cent in 1974/75, and internal resources generated during the year came to Rs. 580 crores. Over the same period, employment increased from 6.60 lakhs to 14.08 lakhs, and salaries and wages went up from Rs. 361 crores to Rs. 1,053 crores. Despite the inflation of recent years, these figures show quite clearly that the public sector is now well established in the industrial field, and is already something of a force to reckon with.

This state of affairs has not come about easily. Indeed, almost every enterprise has at some stage been criticized for inefficiency and doubts have been raised in the public mind about the wisdom of continued heavy investments in the public sector. Every industry that has made good has had to work its way through a tangle of problems that have been none the easier to solve because of being in the public sector. There are, in fact, a number of conditions peculiar to State-owned industries that possibly make them more difficult to manage than if they had been privately owned

## Characteristics of Public Sector

Public sector enterprises may take the form of statutory corporations or joint-stock companies, functioning under the Companies Act. But whatever their legal status, their ideological background gives them certain characteristics that are common to all.

In each case, the public need and national interest take precedence over all else. An existing industry may be nationalized in order to gain control over a vital sector of the economy, as has been done in the case of the LIC and banks, the country's leading financial institutions; or it may be that an industry has to be set on its feet again, as with domestic air transport in 1953 and the 100 or so "sick" textile mills of today; or to rationalize management and raise production as is being done in the coal industry. Then again, new industries may be created, some for the first time in the country, to develop industrial potential in areas of strategic importance: these include steel and other metals, chemicals, defence equipment, electronics and the like. Thus almost every enterprise has about it some features—financial, organisational, technological or managerial—that, singly or together, place a heavier than normal load on the people who are to run it.

Another characteristic that public sector enterprises have in common is size. Planning any industry on a national scale usually means that it has to be large from its very inception; and if it be a new creation, more often than not complex technology may also have to be mastered in the bargain. Investments are heavy and many enterprises have to operate a number of plants deployed around the country. These factors again complicate the tasks of the manager and aggravate the burdens that he must carry. Many of their critics do not realize that increased size brings about qualitative as well as quantitative changes, calling for organisational arrangements and managerial skills far exceeding the requirements of smaller units.

Perhaps the most important fact of life for public sector industries is that they are under the constant scrutiny of Government and Parliament. This is to be expected for they are financed by the public exchequer, and it is but right that they should be accountable to the people's representatives for the manner in which their funds are used. Officers of the Auditor-General's department have access to all documents and records and are free to question everything that is done or not done. Their observations go to the Parliamentary Committee on Public Undertakings, which periodically calls upon the managements to explain their conduct. Over the years, the Committee and its staff have acquired a considerable knowledge of industry; their objective and critical analyses of the performance of individual enterprises often pain managements but, in my opinion, have done much to improve their working. They have also caused a wit to remark that the public sector is known as such because no part of it is private!

## Management of Public Sector

While the physical facilities of an industry can be brought into being in a relatively short space of time, these can produce results only if properly managed. The public sector's problem has been that instead of a gradual build-up of its industries and the managers with them, it has had to set up large units at short notice with little managerial talent. All but a few enterprises—one of the exceptions being Air India—have suffered because of it. Nationalization has not helped in this respect. Most of the affected industries have brought with them large numbers of managers and workers but there have been few amongst them with the experience and ability to suddenly take on greatly enhanced responsibilities, the proper discharge of which calls for wider vision and competence of a kind different from that required for the management of relatively small, privately owned units. New industries being set up for the first time are no less demanding, and it is no easier to provide them with suitable executives. Ready-made managers are a rarity. As a rule they have to be trained and then be taught by experience—a slow and time-consuming process.

To begin with, therefore, senior managers for the public sector had to be found from amongst Government servants, civil and military. Officers were employed either on deputation from their parent services, or after retirement. They served a few years at a time and then made way for others equally inexperienced in industrial management. Few came forward from the private sector to help. Perhaps they understood the difficulties inherent in State-owned industries and the comparatively meagre pay-scales might have been a further disincentive. An attempt was made to create an Industrial Management Pool with volunteers from the private sector but with limited success. Retired officers and deputationists were the mainstay of many enterprises while junior and middle level executives were being recruited and trained and were building up their experience on the job. Today, thanks to those training programmes and the recommendation of the Administrative Reforms Commission which makes it compulsory for a Government officer to decide whether or not he wishes to remain in the public sector after a short period of deputation, there is a fair number of able and experienced managers in the middle and higher levels of most industries. Appointments to key posts are increasingly selective and professional standards are being raised. Much remains to be done but the improved competence of public sector managements is to be seen in their progressively better results.

## Labour in Public Sector

Whenever public sector managers meet, one of the principal topics of conversation is what problems they have with their work-forces. I imagine it is no different in the private sector. It is a subject of vital importance, of course, for without workers there would be no industry, whether there are managers or no.

The fact that State-owned enterprises are financed from public funds and their surpluses, when there are any, go back into the public exchequer has in the past made no difference to trade union attitudes. The avowed aim of union leaders has been to obtain the best possible terms—usually meaning more wages and shorter working hours—for their members. To achieve this they have freely used strikes and other forms of direct action, often over trivial issues. An appeal made by the late Mr. Mohan Kumaramangalam, in January 1973, to spare the public sector from agitations brought forth the answer that such trade union activity could not be given up for anybody.

Having dealt with my share of labour troubles, I would say that most union leaders and managements misrepresent the true feelings of workers: the former make them out to be dumb masses, oppressed and exploited, and the latter think of them as greedy and grasping and idle to boot. An objective study of workers' motivation in Hindustan Aeronautics Ltd., carried out by the Ahmedabad Institute of Management at my request, came to the conclusion that the worker's principal interest was in his work, for it was in that he found security and prospects of advancement. Wages and hours of work were also important but were graded several places below interest in work. In the case of managers, the opposite was the case: money mattered most to them followed by prospects of promotion; job satisfaction rated fairly low on their list.

There are valid reasons for these differences in outlook. The worker usually lives in a group bound together by strong ethnic and linguistic ties. Having acquired a particular skill and found a job in a place near his home, he becomes quite immobile, both professionally and socially. He looks for his advancement within that limited environment, where his status depends upon his job, and where he hopes to find husbands for his daughters and employment for his sons. As long as security of employment is assured and there are reasonable chances of promotion, he has the makings of a willing and well-motivated worker. But should his job and promotion prospects become uncertain then he is prepared to agitate in order to protect them. In contrast to the worker, the manager's skills are mostly of the academic, intellectual kind, his social circle is much wider and he is less hemmed in by cultural barriers. His way of life depends to a large extent on what he earns, and he is better equipped to move from one job to another, and from one place to another, in search of better emoluments.

What I have said may appear to be too facile a generalization; it is certainly an over-simplification of the many complex factors that motivate people to work. Even so, though I am not a psychologist, I venture to speak about the matter because from what I have seen in both Hindustan Aeronautics and Indian Airlines it seems to me that many of our troubles arise out of the hiatus, or gap, between the manager's ways of thinking and those of his workers. Seen from the worker's viewpoint, the manager is like a person from another world, usually speaking a foreign language and with habits and manners quite distinct from his own. If the manager should also be status conscious, as so many are, or speak roughly, or find fault without sufficient reason, or not know his job well, then he is looked upon as hostile or incompetent or both. The larger an organisation, the more remote the manager is likely to be from his workers and the greater is the danger of their alienation from each other. Industrial relations are determined largely by states of mind that are not amenable to regulation by legislation; the rule of law affects only their consequences.

Mr. Bagaram Tulpule, the labour leader and former head of a public sector steel plant, most probably had such thoughts in mind when he remarked that "workers as a whole do not feel involved, do not perceive a stake of their own in development and raising productivity". (From "Dynamics of Labour Relations in India" by R. D. Agarwala). That is putting it mildly. In many cases, workers have been actively opposed to the management's scheme of work. Hoping to minimize if not altogether remove such conflicts by bringing workers and managements closer together on the shop-floor, Government has recently come out with guidelines on how to involve workers in their work. Many public sector industries already have and others are now setting up the machinery and procedures for regular consultation between shop-floor managers and workers. To me it seems extraordinary that managements should have to be told how to talk with their own men. Surely the manager's foremost and continuing task is just that: to know his workers and their capabilities and limitations, to train them for their jobs and to plan, co-ordinate and control their activities so as to produce the best results. At the same time, he has to bear in mind the hopes and aspirations that they seek to satisfy and help them to do so to the extent possible. It is for him to break down the barriers of status and culture, while maintaining his own authority as a leader. He can win their confidence by visible proof of his own integrity and professional ability and by the fair and firm manner in which he deals with people. From such a manager they will accept guidance and correction, even severe punishment, without demur. They will, in fact, be as much involved in the progress of the enterprise as he is, without the aids now being thought up.

I realize that what I have said sounds like platitudes, trite and sententious. Yet they need to be said, for I have seen managers ignore these basic rules of civilized behaviour and then accuse workers of being troublesome. Whenever they have tried to bully or bluff their way through they have been found out by their workers, from whom it is well to remember nothing is hidden. Without mutual trust and confidence between management and workers, the enterprise and the public interest have suffered.

All this leads me to the obvious conclusion that it is the manager's duty to establish a sound working relationship with his labour force. His personal behaviour and professional integrity can do that which no amount of labour legislation can achieve. This is a major problem in the public sector. A conscious effort has to be made to educate its managers in this regard, along with teaching them linear programming, discounted cash flow, inventory management and the like. Encouraging signs may be seen amongst the younger managers now in the public sector: they are spending more time on the shop-floor alongside their workers, and are less reluctant to dirty their hands. These young men and women could, and I hope will, bring about a transformation in our trouble ridden industrial relations, without which no industry, and certainly not the large and complex enterprises of the public sector can hope to succeed.

## Finance

In 1968, the Estimates Committee of Parliament recommended that broad principles regarding the financial and economic obligations of the public sector should be laid down by Government. Drawing attention to this in its 40th Report, the Committee on Public Undertakings remarks that "the performance of public undertakings continues to be judged by a variety of vague objectives and considerations and afford scope for dilution of managerial responsibility." Contributing to this state of affairs are contradictory demands that affect many State-owned enterprises, particularly those that provide essential services or produce basic materials. On the one hand, they are expected to satisfy a public need at minimum cost and, on the other, to earn profits with which to finance further growth.

Take the case of Indian Airlines. It provides an essential service at fares controlled by Government that are amongst the lowest in the world. This it does with a fleet of almost wholly imported aircraft, supported by imported equipment, on which customs duty has to be paid, adding to their cost. The price that it pays for fuel has the distinction of being about the highest anywhere. (In 1974/75, IA's fuel bill of Rs. 38.97 crores came to 42 per cent of its total operating costs, with excise duty and sales tax accounting for Rs. 9.84 crores and Rs. 5.12 crores respectively.) Despite such heavy charges and minimal fares, the airline is expected not only to pay its way but also generate resources for the modernization and expansion of its fleet. This it can do only by careful husbanding of resources, increasing utilization of aircraft and cutting out services on which traffic is light and the losses excessive. Working in this manner, the airline was able to break even in 1974/75, with a surplus of Rs. 1.01 crores. It is worth noting that only some 20 routes out of a total of 84 operated produced a net profit, the losing routes being subsidized by the profitable ones.

The management of the airline was then, and I imagine still is, under pressure to add new stations to its route pattern. Some of these have been served before with poor results and others show little promise of doing any better. However, if the national policy is that as many places as possible are to be linked by air then a case exists for the airline to operate such routes. In that event, to avoid heavy losses the Government would either have to increase fares or subsidize the airline out of public funds; the first course is likely to be resisted by the public and the second would be a drain on the exchequer. If neither the increased fares nor the subsidy were granted, then the Corporation's re-equipment programme would have to be brought to a halt. That, in turn, would lower the airline's efficiency and increase operating costs, thus adding to its losses and further retarding development. Ultimately, both the public and the airline would suffer.

I have described the predicament of Indian Airlines because I am familiar with it. Other public sector enterprises suffer in the same manner, steel, coal, rail transport and power being some of them. They await the formulation of specific norms by which the performance of particular industries may be fairly assessed.

Lest I leave you with the impression that most public sector industries are fated to be losing concerns, I must remind you that, despite their special obligations, taken all together they are showing progressively better financial results even by conventional business standards. Their return on investment is now nearly 5 per cent and the aim is to ensure a minimum return of 10 per cent. To do so, the shortfalls of some industries will have to be made good by the larger surpluses of others, just as IA's profitable routes subsidize the losing ones and a balance is maintained between the two to produce a small surplus. With the redefinition of financial and economic objectives of particular industries in the public sector, it is likely that new standards somewhat different from the conventional ones, may emerge by which to assess their individual contributions to the improvement of the national economy. Industries that meet their obligations may then be judged less harshly than at present.

## Social Gains of Public Sector

One concept that is becoming clearer is that of the social gains to be derived from what would appear at first sight to be uneconomic investments. The National Textile Corporation is a case in point. When set up in 1968, there were many who doubted the wisdom of pouring public funds into an industry that suffered from excess capacity, was in poor health and seemed to have no chance of getting any better. In a market economy, operating on the principle of survival of the fittest, the sick mills—more than 100 in all—would have been allowed to close down and render jobless several hundred thousand workers. It was mainly to save their livelihood and provide a measure of social relief that the mills were nationalized and the Corporation formed.

Things have turned out rather better than expected. The managements of the mills have been reorganized and their production programmes rationalized, with emphasis on the manufacture and marketing of cheaper varieties of cloth. In eight years their health has picked up to such an extent that they are now able to pay their way: net profits have gone up from Rs. 26 lakhs in 1972/73 to Rs. 1.07 crores in 1974/75. During the same period their contributions to the public exchequer by way of taxes have increased from Rs. 91 lakhs to Rs. 1.74 crores. And this is only the beginning. The future appears so promising that total investment in the Corporation has been increased from Rs. 20.68 crores in 1972/73 to Rs. 77.96 crores in 1974/75.

By commercial standards the marginal return on investment produced by the Corporation is nothing to crow about. But in social terms, the returns are surely worthwhile, for by keeping the sick mills alive, and restoring them to their present state of health, employment has been provided to some 400,000 workers, directly and indirectly, who with their dependents number around two million souls. By doing so it has also been possible to bring to the market cheap cloth for the poorer sections of society, who form much the larger part of our population. Finally, Central revenues have also benefited from the taxes paid on the Corporation's products. In retrospect, the nationalization of sick textile mills was the right thing to do at a time when it seemed contrary to good sense.

## Autonomy

Public sector enterprises take the form of statutory corporations or joint-stock companies instead of departmental undertakings in order that they may have the independence and flexibility of autonomous business organisations. The extent of autonomy that they actually enjoy may be judged from the powers vested in them to spend money and to employ and administer their staffs.

In the matter of money, expenditure on capital account beyond certain limits requires the prior approval of Government. This is understandable since the funds have to come from the public exchequer and resources, being limited, have to be used in accordance with set plans and priorities. However, it is not the principle but the process of obtaining Government approval that taxes the energies and ingenuity of public sector managers; for some obscure reason more so if they provide a public service, as in Indian Airlines, than if a manufacturing industry, such as Hindustan Aeronautics, is involved. The management must of course make out a case for the equipment and facilities that are sought for approval by the Board of Directors, whose members invariably include senior officers of the Finance Ministry and the Ministry under which the enterprise functions. Board approval having been obtained, the proposal then goes to the administrative Ministry, the Planning Commission and the Finance Ministry for their comments. If the investment exceeds one crore of rupees, then the Public Investment Board must also approve before a final decision can be taken; when the sum is large, the deciding authority may well be the Cabinet. All this is accompanied by much noting and personal discussion and by asking of questions and framing of detailed answers, which provoke yet further questions. Altogether, an exhausting process.

No one can doubt the need for careful scrutiny of proposals for the expenditure of public funds, but it does seem to me that the system can be simplified and speeded up considerably. After all, the members of the Board of Directors are responsible people, and those representing the Ministries may be expected to bring to the Boardroom their special knowledge of Government plans and policies. Therefore, if the Board recommends a proposal it should be possible to come to a decision on it with just one, or at most two, further examinations of it. This could be done in the Public Investment Board, which functions under the Ministry of Finance and has on it representatives of the Planning Commission and the administrative Ministry concerned; or if absolutely necessary, by the Planning Commission and the PIB separately. In any case, time limits should be laid down and observed so that the decision is not unduly delayed, for delays usually result in short production of goods or services and escalation of costs.

As for revenue expenditure, Boards of Directors and managements enjoy a great deal of freedom, as they also do in the creation of posts and the employment of all but their topmost executives, who are appointed by Government. The exercise of these powers are reflected in their personnel policies, the two most notable features of which are large work forces with scant regard to productivity, and the existence of widely disparate wage scales in similar or related industries. Managers are also vested with wide disciplinary powers, but exercise of these is curbed by procedures that prevent the arbitrary punishment of employees.

The fact that many public sector enterprises carry excess manpower has been brought home to them by the Committee on Public Undertakings. Its reports on the performance of particular units always deal with productivity, and in most cases find it wanting. The causes of this usually go back to the early days of the enterprise, when relatively raw managements, not infrequently harassed by labour troubles, were inclined to give in fairly easily to the demands made upon them. The resulting agreements established the bases on which further demands were made and new agreements reached. Once in a while, disputes were referred to tribunals or to arbitration, but in the main they were settled in bipartite negotiations across the table. A good practice in principle, but if built upon and perpetuated whatever had gone before, often sanctifying and enlarging practices that made it necessary to employ more workers than were necessary, and granting higher wages for less work and lower productivity.

It is only in the last two or three years that public sector managements have begun to resist such pressures. They have been assisted in this by a Government instruction that requires all wage proposals to be first approved by Government. This cuts into the autonomy of public sector managements, no doubt, but is an essential restriction and a first step, I believe, in the evolution and application of a consistent wage policy for State-owned enterprises. Not that that will be an easy task, for public sector wages will have to be related to those of the private sector in similar industries; and yet, until that or some other viable arrangement is arrived at, some restraint will have to be enforced in public sector enterprises, if necessary by Government edict, to ensure that they bear a rational relationship to each other and to the productivity of the industries concerned. The newer generation of managers are aware of this. They now have the theoretical background and understanding of modern industrial techniques to improve the utilization of men and machines. I do not think they will be handicapped by the present curtailment of their autonomy; they might even profit by it.

Another important area in which the extent of autonomy to be enjoyed by an enterprise has yet to be stated clearly is that of its actual operations. I repeat the example of Indian Airlines and its losing routes. According to the Air Corporations Act, it is for the management to decide which routes to operate and which not, working "as far as may be on business principles." Should Government desire any service to be operated when the management thinks otherwise then it has the power to issue a directive to that effect, and accept the financial consequences. In practice, that is rarely done. The matter is sought to be settled on an informal basis, leaving the onus for the decision on the Corporation. In the absence of specific financial, economic and social norms, it is difficult to say whose views should prevail.

Personally, I feel too much can be made of the demand for autonomy. Public sector enterprises exist to produce goods and services to meet public needs. They operate within a given social, political and economic frame-work, of which they are vital parts. Many considerations other than those peculiar to a particular industry have to be taken into account in deciding what they should do, and perhaps even how they should go about doing it. The extent of autonomy to be granted to an enterprise has to be interpreted in that context. This takes us back to the laying down of norms first mentioned by the Estimates Committee in 1968. When that is done, it may be possible to bring some order into the confused thinking now prevalent on the subject.

## Technology

One of the chief tasks of the public sector has been to develop industries involving sophisticated technology. Falling within this category is the manufacture of machine tools, heavy engineering equipment, aircraft, ships, electronics, instruments, equipment for defence, power generation, communications and the like. In almost every case, the design of the product, the methods and processes required for its manufacture, most raw materials and much of the machinery and factory equipment have had to be imported. Licence agreements have enabled the industries to go into production relatively quickly; they have also helped to train our engineers and technicians in the use of modern machines. Indeed, the ease and speed with which our people have mastered complex technology has been quite remarkable, though their understanding and application of the techniques of production planning and control has been somewhat slower, and productivity has been low.

What has been missing is a comparable development of indigenous capacity for original design work. Licence agreements are habit forming; those addicted to them lose the ability to think for themselves. They tend to rely on others to conceive of new designs and materials and methods and processes. Original work is fraught with uncertainties: it takes up much highly trained manpower, time, effort and money without the surety of success. These act as deterrents to managements that are under pressure to increase production and profits. Funds allotted to research and development are pitifully small. The Committee on Public Undertakings has recorded evidence to the effect that less than one per cent of total turnover is spent on this vital activity. It has also noted the lack of co-ordination in the R & D work that is being done by different agencies.

A Department of Science and Technology was created in 1971 to make good these deficiencies. The Fifth Plan recognizes the importance of R & D, for it allots a sum of Rs. 210 crores for the support of science and technology programmes, in addition presumbly to what the industries will spend out of their own earnings. It is too soon to assess the effectiveness of the effort now being directed to R & D, but until it provides for the development of our own materials and designs the high technology—and high cost—industries of the public sector will continue to rely largely on foreign licence agreements for the production of their goods. They will be like houses built on sand, without foundations.

## Assessment of Public Sector

I have outlined some of the issues that have confronted in the past and still continue to face public sector managers. The list is by no means complete, nevertheless it should give you some idea of the kind of problems that they have had to deal with while their industries have been putting down roots and sprouting branches rather like a fast-growing tree. And as with trees, the industries need to be nourished and trimmed and kept free of pests so that they may be healthy and prosper. Most of them are fairly young as yet, but after 20 years and more of the public sector's existence enough is now known about it to venture an assessment, to see to what extent it has lived up to the hopes expressed in the Industrial Policy Resolution of 1956.

*Development*: Rapid development of certain essential industries and public utilities was the primary aim of the public sector. It has not been possible for me to go into details, but judging from the number and variety of industries established in the last decade, and the sizeable investments made and the results now being produced, one can say that some measure of success has been achieved. In the early stages, growth was inhibited by managerial shortcomings. With the gradual build-up of a cadre of professional managers, the rate of growth is increasing and there is a progressively better return on investments. These trends are likely to strengthen in future.

*Wealth*: The public sector was expected to reduce disparities of wealth and prevent the concentration of economic power in a few hands. In the narrow, literal sense nearly 1½ million persons and their dependents, numbering perhaps 7 millions in all, benefit from the employment generated by the public sector. It is a small contribution that does not go very far in reducing disparities of wealth throughout the nation. What is important is that the funnelling of public sector surpluses into the public exchequer does prevent the concentration of wealth in a relatively few hands. To see what could happen otherwise one has only to look at Pakistan, where industrial development through private agencies has created a small group of extremely wealthy industrialists, now said to number around 40. While they have grown rich, urban and rural workers have derived little benefit from the development of the country's economy. Moreover, the lop-sided growth of a small group of wealthy people is said to be one of the causes of Pakistan's political instability. These opinions are put forward by Robert La Porte Jr., an American scholar, in his book "Power and Privileges", a study of influence and decision making in Pakistan (University of California Press, Berkeley, 1975). He also gives the opinions of other American scholars and economists who discussed "Economic Growth and Distributional Justice in Pakistan" in a seminar at the University of Rochester in July 1970. A view that seems to have gained acceptance recently in the USA is that Pakistan's economic policy in the '50s and '60s should have been based on "sharing austerity" throughout the nation instead of permitting the growth of conspicuous wealth for a few. Pakistan's experience suggests that there is need in a developing economy to curb the increase of individual wealth, as is being attempted in this country through the public sector. And if theoretical justification were needed for State control of planned industrialization in a poor country then that can be found, fully documented, in Gunnar Myrdal's "Asian Drama".

*Workers*: It is as yet too early to say if the public sector's role as a model employer has had any effect outside its own immediate domain. Within it a conscious effect has been made to improve working and living conditions of its employees. Townships, schools and medical facilities are provided for a percentage of workers by every sizeable enterprise. Such amenities have long been available to some private sector employees as well without inducing many others to follow that good example. I doubt if the public sector can really act as the pace-setter in this respect. What it can and is beginning to do is to alter the style of management, with the newer generations of professional managers living and working much closer to their workers. It is in the field of human relations, I think, that the public sector can make its most valuable contribution, breaking down the barriers of our highly status conscious industrial heirarchies, and raising the efficiency of workers through a closer understanding of their capabilities and limitations and social aspirations.

*Resources*: Finally, the public sector is on the threshold of achieving a modest level of profitability. With increasing investments and better management, it should before long become a self-sustaining part of the national economy. But, as I have pointed out, there are certain inherent characteristics of public sector enterprises that defy appraisal by conventional financial and business standards. Fresh norms have yet to be defined for the purpose of assessing their viability. on the basis of which their future development can be planned and provided for.

To sum up, the public sector grew out of our freedom movement, as an essential part of the drive to improve the nation's economic condition. Since 1956, it has been the Government's chosen instrument for rapid industrialization. It's early years were difficult ones, but as managements have gained experience and become more professional, the quality of their work has improved as have their results. Labour relations, at one time a source of perpetual trouble, have begun to stabilize with the enforcement of a degree of Government control in the matter of wages, and the realization by both workers and managers that further improvements in their fortunes must be related to higher productivity. Autonomy of managements has been curtailed to some extent, but its full implications will only be understood when the financial, economic and social objectives of public sector industries have been laid down and the ambiguities now existing have been removed, or at least reduced. In the meantime, many industries must continue to grope along towards a proper definition of their functions.

Our public sector industries are now of considerable size, variety and complexity. I know that my attempt to describe some of their principal features and problems has led me into making generalizations and over-simplifying important issues, mentioning some and omitting others that may appear more urgent to many a manager. As I warned you at the outset, I am no scholar or economist or policy maker with subtle arguments for or against the public sector. I have served in it as a manager and I have tried to give you a manager's report of what I understand the public sector to be, of some of the problems that it's managers have had to face, and the manner in which it is developing. I trust it has made sense.

*The views expressed in this booklet are not necessarily the views of the Forum of Free Enterprise.*

# PART I — LONG-TERM GROWTH TREND

**The plan-wise and annual growth trend in investment in Central enterprises is as follows :**

| Period | | No. of Enterprises | Investment Rs. crores |
|---|---|---|---|
| As on 1st April 1951 (beginning of 1st 5-year Plan) | ... | 5 | 29 |
| As on 1st April 1956 (beginning of 2nd 5-year Plan) | ... | 21 | 81 |
| As on 1st April 1961 (beginning of 3rd 5-year Plan) | ... | 48 | 953 |
| As on 31st March 1966 (End of 3rd 5-year Plan) | ... | 74 | 2415 |
| As on 1st April 1969 | ... | 85 | 3902 |
| As on 31-3-1970 | ... | 91 | 4301 |
| As on 31-3-1971 | ... | 97 | 4682 |
| As on 31-3-1972 | ... | 101 | 5052 |
| As on 31-3-1973 | ... | 113 | 5571 |
| As on 31-3-1974 | ... | 122 | 6237 |
| As on 31-3-1975 | ... | 129 | 7261 |

*Source :* "Performance of Central Government Public Enterprises 1974–75" Published by The Bureau of Public Enterprises.

APPENDIX "A"

## PART II — PATTERN OF INVESTMENT

**The pattern of investment by different sectors, inclusive of enterprises under construction as at the end of 1974-75 is given below :**

| | | At end of 1974-75 | | At end of 1973-74 | |
|---|---|---|---|---|---|
| | | Rs. crores | % | Rs. crores | % |
| **Enterprises producing & selling goods :** | | | | | |
| Steel | ... | 2217·69 | 30·5 | 2028·97 | 32·5 |
| Minerals & Metals | ... | 1024·70 | 14·1 | 872·59 | 14·0 |
| Petroleum | ... | 434·57 | 6·0 | 360·02 | 5·8 |
| Chemicals & Pharmaceuticals | ... | 1065·91 | 14·7 | 818·11 | 13·1 |
| Heavy Engineering | ... | 692·37 | 9·5 | 674·81 | 10·8 |
| Medium & Light Engineering | ... | 168·14 | 2·3 | 146·29 | 2·3 |
| Transportation Equipment | ... | 270·22 | 3·7 | 227·41 | 3·7 |
| Consumer Goods | ... | 82·91 | 1·1 | 67·42 | 1·1 |
| Agro-based Enterprises | ... | 9·08 | 0·1 | 9·23 | 0·1 |
| Total | ... | 5965·59 | 82·0 | 5204·85 | 83·4 |

| | At end of 1974–75 | | At end of 1973–74 | |
|---|---|---|---|---|
| | Rs. crores | % | Rs. crores | % |
| **Service Enterprises** | | | | |
| Trading & Marketing Services ... | 316·44 | 4·4 | 309·04 | 5·0 |
| Transportation Services ... | 639·63 | 8·8 | 528·10 | 8·5 |
| Contracts & Construction Services ... | 22·57 | 0·3 | 15·89 | 0·3 |
| Industrial Development & Technical Consultancy Services... | 4·12 | 0·1 | 4·61 | 0·1 |
| Development of Small Industries ... | 36·75 | 0·6 | 34·12 | 0·5 |
| Tourist Services ... | 18·26 | 0·3 | 17·67 | 0·3 |
| Financial Services ... | 169·92 | 2·3 | 89·09 | 1.4 |
| Rehabilitation of Sick Industries ... | 87·37 | 1·2 | 33·77 | 0·5 |
| Total ... | 1295·06 | 18·0 | 1132·29 | 16·6 |
| Grand Total ... | 7260·65 | 100·00 | 6237·15 | 100·00 |

*Source :* "Performance of Central Government Public Enterprises 1974–75" Published by The Bureau of Public Enterprises

APPENDIX "B"

## FIVE-YEAR PROFILE OF PUBLIC ENTERPRISES

| | 1970–71 | 1971–72 | 1972–73 | 1973–74 | 1974–75 |
|---|---|---|---|---|---|
| 1. Investment (Rs. crores) | 4682 | 5052 | 5571 | 6237 | 7261 |
| 2. Turnover (Rs. crores) | 3309 | 3974 | 5299 | 6777 | 10217 |
| 3. Gross Profit (Rs. crores) (before interest and tax) | 146 | 172 | 245 | 273 | 559 |
| 4. Net Profit (Rs. crores) (before tax) | 20 | 22 | 83 | 149 | 312 |
| 5. Net Profit/Loss (Rs. crores) (after tax) | (–) 3 | (–) 19 | 18 | 64 | 184 |
| 6. Internal Resources (Rs. crores) (Generated) | 204 | 215 | 260 | 387 | 580 |
| 7. Return on capital (%) employed | 3·9 | 3·9 | 5.1 | 5·2 | 8·4 |
| 8. Return on paid-up capital (%) | L | L | 0·6 | 1·9 | 4·9 |
| 9. Employment (No. lakhs) | 6·60 | 7·01 | 9·32 | 13·14 | 14·08 |
| **10. EXPENDITURE ON EMPLOYEES** | | | | | |
| (a) Salaries and wages etc. (Rs. crores) | 361 | 415 | 541 | 749 | 1053 |
| (b) Expenditure on social benefits & housing (Rs. crores) | 34 | 34 | 41 | 53 | 73 |
| | 395 | 449 | 582 | 802 | 1126 |

*Source:* The Bureau of Public Enterprises.

"Free Enterprise was born with man and shall survive as long as man survives."

—A. D. SHROFF
(1899-1965)
Founder-President,
Forum of Free Enterprise.

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