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DISINVESTMENT PATTERN OF PSES; EXPLORING NEW DIMENSIONS OF SUSTAINABILITY

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ABSTRACT

The public sector enterprises referred as“temples of modern India” was setup when only the government has the resources to initiate the Industrial revolution. Now after years of nurturing, when private sector has come of age and have become strong and vibrant part of industrialization few PSEs are being divested for the reasons of non-performance and some for the sake of bridging the gap of fiscal deficit.However looking back it has been observed that there remains the important role of State interventions to revive the country’s economy from depression. Since October 2008, when the global economy looked as if it could plunge into another Great Depression, governments across the world have wasted no time in debates and the ‘State’ has decisively stepped in with stimulus and bailout packages. Incidentally, the ultimate ‘Capitalist’ economy in history, the United States has been the most aggressive in State intervention. (**Business & Economy, 2010**)The research paper attempts to explore the various new dimensions of sustainability considering the disinvestment pattern so far. The current disinvestment policy could be a major threat to PSE’s which are currently treated with disregard by the policy reformers. The paper examines that many Public sector enterprises in India have responded admirably post-economic reforms and liberalisation. Not only did they expand production and profit levels but also became an important choice of investment for global and domestic investors. In future, the PSEs will garner enough opportunities and will enhance their scope of strategy, apart from building their competitiveness through strong and proactive leadership, effective management, and efficient processes that govern business planning and development, and management of resources.

KEYWORDS: Sustainability, Disinvestment, CPSE and Planning Process

INTRODUCTION

The public sector is not an isolated phenomenon, unrelated to the process of growth and its objectives. It is not a phenomenon which needs to be nursed for its own sake, for the mere existence of public sector carries with it no assurance that the economy in which it functions is tuned to objectives that are sound. Public sector, on the other hand, is an instrument, and like other instruments, may be used for a variety of purposes, sound or not so sound. Even Hitler used the public sector for building up a fascist state. Obviously, his public sector can bear no comparison with the public sector of socialist countries.

In several developed, capitalist State like the United Kingdom, public sector was actively created after World War II by nationalising private undertakings, not so much to aid or accelerate the process of growth, or determine its nature, as to change the class balance in society by weakening, or at least not encouraging the further growth of the capitalist class. In developing countries, on the contrary, the public sector is used sometimes as a catalyst of growth to aid private development and sometimes as the main determinant of the nature of growth. For India, the choice was made years ago, in fact a decade before Independence, if the statements then made by Jawaharlal Nehru are to be taken as guides to future decisions of Independent India. In December 1954 the Parliament adopted the famous resolution laying down that the objective of the economic policy of the country should be a **'Socialistic Pattern of Society'** followed by announcement of Industrial Policy Resolution, 1956. The Resolution classified the industries into three categories. In Schedule A of the Resolution were included 17 industries which were to be the exclusive responsibility of the State. The industries, among others, were arms and ammunition, atomic energy, iron and steel, coal, mineral oils, air and railways transport, aircraft and ship manufacturing, electricity and minerals like gold, silver, iron ore, copper, lead, zinc etc. The second category of industries included in Schedule B of the Resolution was 12 in number. These were other minerals (expect minor minerals), aluminium and other non-ferrous metals not included in the Schedule A, machine tools, antibiotics and other essential drugs, fertilizers, road and ship transport etc. All the same, private enterprises were also to have the opportunity to develop in this field either on its own or with the State participation. All the remaining industries were to fall in the State participation. All the remaining industries were to fall in the third category. Their development was to be undertaken ordinarily through the initiative and enterprise of private sector, though it was open to the state to start any industry even in this category.

With the adoption of the Industrial Policy Resolution of 1956, the state assumed direct responsibility for the future development of industries over a wide area. All industries of basic and strategic importance or in the nature of public-utility services were now in the exclusive domain of the public sector. Besides, the state could enter into the unreserved sector too in its discretion.

The promulgation of the Industries (Development and Regulation) Act 1951 combined with the Industrial Policy Resolution of 1956 ushered India into an economy which could neither be termed as Socialist or Command economy nor as 'Market' or free economy. It could not be called socialist, as unlike in the former Soviet Union, here in India the private sector co-existed with the public sector in a big way. Similarly it could not be called as a Market-economy as public sector had a pre-eminent role in the country's economy and even in the field open for private sector, the industry was under regulatory control of the state. No entrepreneur could put up a large scale or medium sized industry without a license from the Government. The economists have correctly termed the economy as 'Mixed Economy' having elements of Socialist as well as Market economy.

The public sector was started in the 1950s and grew steadily in the 1960s with the spate of nationalisation of banks, insurance companies, coal mining and sick textile and engineering units. A large number of public sector units were set up in the core sectors of steel, fertilisers, oil exploration, production, refining, heavy engineering, machine tools, aircraft, nuclear power, utilities, power generation and state trading. Investments worth Rs. 20,00,000 million have been made in 246 public sector corporation over the last four decades, but the returns remain quite poor and the bulk of the profits are emanating from companies operating as monopolies in the oil sector in non-competitive areas and only a handful of them are functioning in a competitive framework.

OBJECTIVES OF PUBLIC SECTOR

An examination of the plan document and the Government policy resolutions and statements has revealed that there are as many as 28 objectives; as detailed below:

- To help attainment of a “socialistic patter of society”;
- To control basic and strategic sectors of economy;
- To provide the requisite economic infrastructure;
- To develop and manage other essential industries;
- To undertake tasks beyond the capability of private enterprises;
- To attain the commanding heights of the economic;
- To promote self-reliance;
- To accomplish structural changes in the economy;
- To develop backward areas and secure balanced regional development;
- To generate surpluses for development;
- To control the exploitation of natural resources;
- To utilise more fully economic resources;
- To provide competition to private enterprises;
- To facilitate development of the private sector by providing services, materials and financial resources at low prices;
- To prevent and counter the growth of monopolistic tendencies and concentration of economic power;
- To improve income distribution;
- To prevent domination by foreign capital;
- To develop indigenous technology.
- To generate foreign exchange reserves;
- To develop export potential;
- To generate employment;
- To work as a model employer;
- To train technical and skilled manpower;
- To prevent closure of sick private undertakings and consequent unemployment of workers;

- To help specific socio-economic sectors and social target groups (such as agriculture, small scale sector, rural and urban poor, etc.);
- To promote a socially desirable pattern of consumption;
- To provide essential consumer goods at reasonable prices; and
- To help stabilisation of prices.

REASONS FOR DECLINE OF PSES

The **Industrial Policy Statement 1991** clearly acknowledged that many PSEs had become burden rather than assets to the government. In fact, due to this realisation on the part of the government, the system of MOU had already been initiated during 1987-88, with self-obligation pattern thereafter diverted towards disinvestment process. Several reasons can be cited for the failure of the PSEsto perform to the desired level. Major reasons were as below:

Locational Factor

This factor has two aspects. Firstly, there was the laudable policy decision to try to locate at least some of the projects in backward and inaccessible areas. The inevitable result of this policy was that the enterprises were located in areas where the availability of the infrastructure facilities was highly inadequate. This pushed up the costs of the enterprise.

Too Many Promises to Keep

A further factor affecting the working of the public sector projects arises from the disruptive manner in which the democracy functions in India. As is well known, at the time of various elections wild promises are made by the ruling parties, as well as by the opposition parties, to curry favour with the electorate. Of course, not all the election promises with regard to large public sector projects are always fulfilled.

Poor Project Planning

As is well known, at the stage of formulation of the project reports, not infrequently the matter is taken in a somewhat cavalier fashion. There are various reasons for this. Sometimes the expert staffs are far too inadequate in number and expertise for the task of project preparation. Sometimes even the competent technical staff is demoralised because of a number of reasons. Sometimes the politicians overrule the expert advice and dictate some of the key parameters of the project, without bothering about the consequences of their behaviour. In the process, many a time either the choice of technology is wrongly made or a number of vitally related factors are not taken into account.

Delay in Execution of Projects

The country has Five Year Plans which take into account the supply and demand balances in respect of a number of key commodities through a sophisticated input-output table. In reality, it all turns out to be a sophisticated exercise in irrelevance. Neither the Planning Commission nor any agency worked out how much of various capital goods would be required year-by-year for various projects in the public sector as well as in the private sector. Absolutely, no planning was made in this regard on a year-by-year basis. The Planning Commission did not have even any data on the basis of which it could do such an exercise.

Neglect of Completed Projects

For obvious reasons, Indian Politics and the economic administrators are terribly interested in spending money on new projects. They would fight heroic battles to get the necessary sanction for new projects with great zeal, assiduity and ingenuity. But once a project is completed, they cease to have the same lively interest in getting the best output from that project. Their attention switches to some new project.

What is particularly regrettable is the fact that when it comes to a Central Government project located in a particular State, many a State government feel that “It is not our project: it is the Centre’s project. Why should we bother too much about it? It is their headache”.

Uneconomical Pricing Policies

The ministers and the economic administrators at the Central as well as the State level are generally extremely averse to an increase in prices- even when a price increase is fully justified.Sometimes they are worried that the electorate would resent the increase in the prices of some of the commodities like milk, road transport, railway transport, controlled cloth, kerosene and soft coal.

Changes and Vacancies at the Top

There is a practice of extremely high frequency change of top executives in the public sector. It is most fantastic that while even a peon in a public sector enterprise has a cent per cent job security and cannot be dismissed on the spot, the top executive has absolutely no security. He can be asked on the spur of the moment – just over the telephone – to hand over his charge to somebody else and quit immediately. There have been literally hundreds of cases of such summary dismissal during the recent years.

Labour Indiscipline

In such a situation when everyone around is on the grab, it is hardly surprising that even the labour has joined this unseemly game. As is well-known, during recent years, there has been on overall deterioration in labour discipline throughout the organised sector in the country. But, for several reasons the situation in the public sector is worse as compared to the private sector. One reason is that the public enterprises, being government-owned are more susceptible to political interference and unionisation. Trade unions have become, *via* party affiliations, warring political constituencies.

DISINVESTMENT OF SHARES

Due to non-performance of PSE the Government of India decided to withdraw from the industrial sector and, in accordance with decision, started privatising the public sector enterprises in a phased manner. The main approach of the government in this regard is to bring down its equity in all non-strategic public sector undertakings to 26 percent or lower and close down those PSUs which cannot be revived. For purposes of privatisation, the government has adopted the route of disinvestment which involves the sale of the public sector equity to the private sector and the public at large.

The disinvestment of CPSEs was in accordance with the policies laid down by Ministry of disinvestment with targeted amount of receipt phasewise and yearwise. The measure taken by government was quite debatable and various studies related to disinvestment is mentioned as below:

(RK Mishra, 1988) deliberate the possibility of the denationalization of PSEs. They attempt to answer the question "Is there a need to privatize PSEs at all?" The opined that privatisation should be done considering the interest of the consumer welfare.

(TL Sankar, 1989)have prepared a divestment matrix. The enterprises owned by the state are selected for the disinvestment on the basis of three parameters SCBA, Profitability and optimum utilization of scarce resources. The vulnerability towards privatisation increases or decreases considering the sensitivity of the above three factors. The study suggested a model that SOEs functioning in a competitive environment with improper resource mobilisation and low SCBA are highly desirable state owned enterprises to be divested.

(Basu, 1994) the study analyses that the divestiture without private sector development can remain "stillborn." The author opined the idea of selective privatization and disinvestment of loss making public sector enterprises and cooperative enterprises operating in non-core sectors. The privatization process should enhance the viability of loss making enterprises and must protect the interest of workers followed by further job creation by capitalizing the dynamism of the private enterprises. Government should focus in core enterprises with concern of good corporate governance practices via increasing accountability with more transparent approach.

(TL Shankar, 1994) contend the disinvestment of PSEs was more of compulsion and less of increasing operational efficiencies because of the economic necessity. In 1991 the country was in deep financial crisis and almost facing threat of bankruptcy to be declared by the external economic community, the government accelerated pro market reforms and initiated disinvestment with dilution of shareholdings of PSEs in order to resurrect the economy and improving the physical position.

(**Prasad, 1997)**in his article entitled "Disinvestment Policy-TheAPIDC a Trend Setter" observed that most of the disinvestment units havestarted earning profit after disinvestment e.g. Raani Cements, NagarjunaSteels etc. Even the loss making units like Alkali Metals has come out ofthe wounds after disinvestment. The share value of these disinvestmentunits has been increasing. Which indicate a favourable response towardsdisinvestment?

(Gouri, 1997) observes that privatization in India is low. Privatization for ownership transfer is limited to the disinvestment of public sector enterprises (PSEs) for raising non-inflationary resources. At the same time, there is a gradual withdrawal of budgetary support from PSEs resulting in a gradual dilution of equity as enterprises tap the capital market. Simultaneously, economic liberalization policies have emphasized a level playing field for the public sector. In terms of economic management, and more so public sector management, there is lack of a comprehensive policy on privatization.

(Mathur B. , 2001)in his article entitled "Is Privatization Inevitable inIndia?" provides a brief background of conditions leading to privatizationof public enterprises, narrates the progress of privatization of publicenterprises since 1991, examine the measures initiated by the governmentto revamp the privatization programme and offers an alternativeframework for privatization of public enterprises in India.

(Naik, 2001) has discussed about mismatch, erratic approach adopted by government in the privatization of public sector enterprises after the major reforms of the year 1991. According to the view point of the author, privatization process terminates to disinvestment process that too for select profit-making public undertaking (PUSs). The investment is conceded with an intension to reduce physical deficit rather improving the performance of PSUs. Moreover due to change in political governance the trajectory of disinvestment process has lost its primary motive of progress of PSUs instead it remain an agenda of political mileage of ruling party. Moreover the reeling PSEs conditions turned from bad to burst and the government subsidies and budgetary support to the PSEs took a back seat. In addition to the above the propagation of the PSEs in the service sector particularly the hotel and hospitality industry, food and bakery added to the woes of failure of PSEs operating in this segment due to becoming uncompetitive. Even in primary segment which was exclusively reserved for public sector the output deteriorated due to diversion of vision and focus which eventually became burden to the exchequer rather generating resources. The author advocates that serious efforts are required both from the ruling as well as the opposition to have a strong consensus to shut down the persistently sick units which are national drainage of economic resources otherwise the situation will not change and lead to a vicious cycle.

(Ganesh, 2001) has discussed about the pros and cons of privatization. To accomplish the objective of "privatization in India," proper competitive law administered by establishing Competition Commission is essential to evade dominance, prevention of lobbies, and control over consolidation. A coercive policy definition is required to be constructed by the Regulatory bodies governing and keeping a watch over the market dynamics.

(KK Ray, 2002) have endeavoured to scrutinize the movement of the procedure of PSE disinvestment in India during the decade of 1991-2001. The study found that a meagre amount was realised with respect to targeted amount from disinvestment procedure. The authors suggested various disputes and criticism against disinvestment could be awarded by adopting transparent process since it has social, economic and political implications. They also suggested different forms of privatization starting from partial i.e. managerial privatization to complete i.e. strategic sale of PSEs. The various forms of privatization suggested were ownership changes, joint venture arrangement and franchising the development of new technology by the PSEs for use by the private sector.

(**Mathur B. , 2002**)in his article entitled "Privatization Need for a PolicyFramework". Noted that there is hardly any justification for sellingprofitable oil companies or shipping corporation which have strategicimportance for the national economy as their control may pass on tomultinationals. He stressed that some nations are even waging wars tosecure control over global oil resources as the recent Iraq conflict hasshown.

(Anshuman, 2003)in his paper entitled, "A major problem in ofdisinvestment of public sector undertakings" is the lack of room fornegotiations between the government and the bidders, or each of thepotential buyers, to assess the potential synergy that the buyer can expectfrom his strategy for exercising the controlling interest in the public sectorundertakings.

(Sudhir, 2004) Disinvestment in India Policies, Procedures, Practices,in this Naib's examine whether the failure of State Owned Enterprises hasbeen exaggerated or in fact their performance is worse than that of privatefirms? If the failure exists and reform is necessary, how should it beaccomplished? Can State Owned Enterprises be reformed from within, orthey are intrinsically inefficient? Would changes in the operatingenvironment improve State Owned Enterprises performance or a changein ownership is the only solution? The purpose of this book is to enablereaders to make an informed judgment about the policy on disinvestmentin India.

(G, 2004) in his publication entitled "PSU Disinvestment:Windfalls and Pitfalls" point out that, public support for thedisinvestments process can be secured only when the proceeds of thedisinvestments are spent for specific social purpose, instead of going, tomeet budgetary deficits. The stated aim of the Government is to reducepublic debt and provide funds for social sector from the proceeds ofdisinvestments.

(**Durgadas, 2004)**in his special report entitled “Disinvestment” focused that the process of government moving away from economicactivities, which has started all over the global and in India too will have afar reaching consequence. The basic principle of welfare economy isgreatest good of the greatest numbers.

(KL Gupta, 2004) the study indicates that privatization induces competition which in term promulgate efficiency of PSEs. According the author the primary objectives of privatization are:

- Strong remedial measure for low profitability and inefficiency.
- A major check towards political intervention in economic decision.
- Source of fund for exchequer.
- Reduction in accountability and answerability on the budget because of losses of PSEs.
- Solution to the problem of lack of autonomy in insufficient management incentives.
- Marking the economy of the country with the liberalization wave in the world.

(Kaur, 2004)has reported the physical binding which has forced the government of India to dilute the ownership from the 1990s and later. He pointed out the statistics of overall fund raised through disinvestment up till 2004. According to the author 39 SOEs were partially disinvested and 35 SOEs have been strategically sold raising the fund approximately Rs. 300 billion. The author emphasised the policy of liberalization in India considering the privatization process referred to be *Greenfield Privatization.* These privatization phenomena have encouraged private entrepreneur to enter into areas which were earlier reserved for PSEs such as power, aviation, telecommunication, roads and railways. In his study he found privatization needs clarification of certain questions such as:

- What are the economic consequences of selling PSEs?
- Whether disinvestment is right step taken by the government?
- Whether privatization will help the economy of the country?

In his study he has found the positive answers of these questions that structural changes of the ownership matters a lot which leads to better controlling, feedback and managerial performance. Therefore the economic consequences of selling PSEs will replicate efficient privatized unit. However, in the Indian scenario the disinvestment approach have not met to the acceptation with respect to performance of SOEs.

(Ram Mohan, 2005)“Privatization in India, Challenging EconomicOrthodoxy” in this book author explores both of these themes at somelength, subjecting to close scrutiny the performance of State OwnerEnterprises and private firms in both the industrial and banking sectors. Itarrives at conclusions that, at the very least, challenge some of the dogmasthat dominate popular debate on the subject. The author draws on China'sexperience in enterprises reform to see whether this hold any lesson forIndia or indeed reinforces lessons driven home by India's own experience.

(B Singh, 2005)state about the utility and process of disinvestment in India. According to them disinvestment leads to cost effectiveness and increase in operating profit. The overall growth in economic condition of the country through disinvestment leads to investment and growth which increases employment and also attract foreign institutional investors. The study also finds the reason of defects in public sector enterprises such as poor management, dearth of autonomy, financial resources, excess manpower and obsolete technology and low productivity having inefficient staff support. Moreover the PSEs are over burden with government obligations of social welfare which erodes the motive of commercial obligation of profitability.

(Nagaraj, 2005)opines that profitability of PSEs are mainly because of petroleum sector enterprises. However, since 1980s it is found that profitability of other PSEs excluding petroleum sector enterprises has also improved. He further states that disinvestment is unlikely to affect economic performance since the state continues to be the dominant shareholder. The share price movement will not have significant impact on such PSEs. In a way privatization can improve the overall economic environment of the country but could not be able to clearly define the changes in performance solely or mainly due to ownership change.

(Gupta, 2005) observes that partial privatization has a positive impact on profitability, productivity and investment. The study is based on 339 manufacturing and service sector firms owned by the Central (247) and State Government (92) of India for the year 1990-2002. Firms experience a significant increase in profitability, labor productivity, R&D investment and intensity, assets size, and employment after partial privatization. Partial privatization leads to an increase in the productivity of labor and output without layoffs.

(**Sanjay, 2006**)"Disinvestment Programme in India" in thisbook the author highlighted the present policy of disinvesting is initially insmall fractions in public enterprises and joint venture to meet thebudgetary deficit and for rationalization into new industrial activities, it islike selling the family silver to have a good time. The main purpose of thisbook is to stimulate readers to gain an insight into the problems of thedisinvestment Management and Suggestions.

(Patnaik, 2006) argues the main objective of disinvestment is optimum utilisation of resources mainly labor and capital as India is labor intensive and capital scarce country. The study found the even the partial privatization have improved the performances. The disinvestment of profit making PSEs leads to disseminated shareholding pattern which checks the concentration of economic power into few hands. Above all, the most important argument in favour of disinvestment lies in the improvement of efficiency.

(Vadlamannati, 2007) has developed an econometric models by using data of 16 years i.e. 1990-2005. The imperial finding shows a week correlation between disinvestment with the variables i.e. economic reforms and physical deficit. This was due to very diminutive and plodding disinvestment and privatization program. The study attempted to answer whether privatization is one of the determinants of deficits.

(Disinvestment Manual, 2007)the main purpose of manual was to elucidate the process, purpose and need of disinvestment and privatization in consideration with policy maker of National and International experience tailor made to Indian context. The manual suggested that the country will do well following the footsteps of western experiences. Moreover, the country will be careful with the drawbacks responsible for the setback of other Asian economies while adopting disinvestment mythologies. The policy also emphasises to safeguard the interest of consumers and investors which are prospective entrepreneur in an ill-defined market economy.

(J Arnold, 2008)explained the benefits of privatisation linking with the pace of reforms out of compulsion in the period of 1991. The authors have analysed that the service sector were more benefited than manufacturing sector whereas the liberalization policies mainly targeted growth of manufacturing sector. Most of the FDI were welcomed in services which nonetheless did have complimentary effect to the manufacturing sector. The preference of entry in services aided lesser amount of layoffs which could be tremendous if competition and privatization would have entered into large scale in the manufacturing sector. The study also verified a significant association amongst improvement in services reform and efficiency in manufacturing industries. They further opined that reforms have major impact in the financial and telecommunication sector which impacted the productivity of manufacturing firms over the period.

(Shivendu, 2008) finds that privatisation programs were more because of politicians pragmatic cost-benefit trade-offs. The author used data of 43 countries on more than 4700 privatization transactions; the authors find strong empirical support for institutional quality as consistent and significant determinant of proportion of partial privatisation. The study revealed that the countries having high level of corruption have more privatisation in competitive sector as compared to non-competitive or core sector. The study empirically found that privatization was more of need based and partial not to achieve economies of scale rather to economise the financial position of the country. Moreover the fiscal pressure induced privatisation does not form any pattern on quantum and proportion. The findings of the study proposed a political economy model of privatisation and show three major findings. First the privatisation percentage is slanted depending upon the institutional quality parameter relative to a measure of private sector efficiency. The distortion increases as the institutional quality declines. Second the enthusiasm and determination of private buyer declines with the decline in the institutional quality. Third under heterogeneous preferences of citizens, the privatisation proportion declines.

(DP Cuong, 2008) reckon about the quacks in analysing the privatization phenomena in the developing economies. They studied in context with the privatization process of Vietnam SOEs. The authors opined that using audited financial data of post and pre privatisation may not give the real picture of benefits of the privatisation rather show only material variation. Moreover the impact of change could be reflected during the course of time. They also analysed the financial parameters showed a mixed results with respect to profitability, turnover and financial ratios as an outcome of privatisation process. The result suggested that the impact of privatization as a reform technique in developing economies may assist policy-makers and managers to target areas of likely risk, during the process of transition from public to private ownership. They further emphasised that improved profitability could not be guaranteed by the privatisation since the external forces of competitive market dynamism also plays an influential role. Further it becomes very difficult to maintain the margin of profit in wake of limiting factors such as technological obsolescence, cost reduction, limited market potential and scarce financial resources. This all may lead to external funding mainly fixed charge source of finance increasing financial leverage in order to overcome the above mentioned limitations. The results of the study suggested that inspite of so much limitation/apprehension the PSEs was found more robust at least after 3 years down the line after the realm of privatization.

(Sabnavis, 2009) attempted a very comprehensive study with basics of disinvestment policy and the essence with which the government enforce the disinvestment process and the utilization of the proceeds thereafter. He suggested that disinvestment should not be treated as dilution of governmental stake rather should be considered as an IPO where the share capital remains intact and the money goes a premium to the "reserve account". The author re-examined the disinvestment scheme which become more of compulsion by creating separate disinvestment department since 1991. In

1991 the idea was proliferated to improve the PSEs by increasing equity base with a motive of restructuring the enterprises. The 1991-92 budget focused mainly rasing resources and increasing accountability. The privatization process was limited to the extent of 49% in certain non-critical sectors with the reiteration of Rangarajan committee. By the year 1999 disinvestment was concerned reviving and restructuring PSEs. Thereafter the disinvestment process was lopsided and deviated from the initial motive of restructuring of the PSEs to restructuring of the Indian economy by reducing the fiscal deficit. The author has viewed both prospects and problems of disinvestment by analysing the objectivity involved during the different phases of disinvestment process. The author opined that Private enterprises could sustain and will not fail is a myth. The superiority of Private enterprises needs to be pondering upon in the event of their failure. He also added that disinvestment should by prioritised first for loss making then for profit making enterprises. However it is fact that it is an uphill task to fetch the buyers for loss making enterprises. Exceptional cases of Modern Foods and ITDC are also there. The study also raises question on the deployment of funds from the disinvestment proceeds. If the objectivity is to enhance the performance and operational efficiency of the PSEs, then the proceeds of the disinvestment from such enterprises should be re-ploughed back to strengthen the capital base. The second question that disinvestment resources are limited and will not support the long term policy of the government and could not be the panacea for managing the government deficit continuously. In 2009-10 the government has managed to raise 53000 thousand crore which is not an ample amount to gratify both the planned and unplanned government expenditure. The diversions of the funds are not able to bridge the fiscal gap and also flagging the financial position of the PSEs. In the private sector, any dilution of equity provides funds for growth and ultimately enhances the shareholders’ value. If the same practice is replicated in case of dilution of equity of PSEs it will not only provide financial strength to profit making enterprises but could also infuse funds to the loss making enterprises for at least initiating for internal restructuring by reducing atleast the debit balance of profit and loss account. During the period 2011-12, there are 161 profit making central PSEs which can grasp a premium in the market. The proceeds so realised could be channelized into 53 loss-making enterprises which could prove a bane to PSEs in a capital scarce country. Raising funds from alternative source leads to high cost of capital, therefore disinvestment route could be an effective solution. Lastly the study emphasised that disinvestment proceeds should be used for repaying debt, however the idea seems to be good but need resolute action to have really an impact.

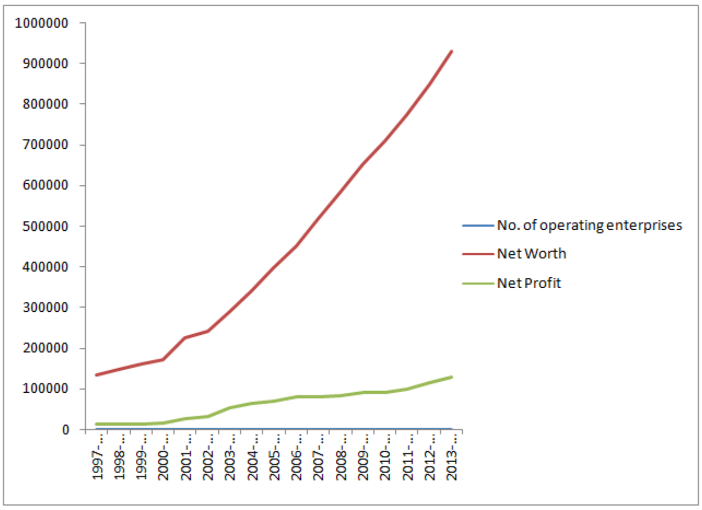
(Kumar V. , 2011) examines the factors associated with PPP mode of privatization in infrastructural projects. The author is of the opinion that disinvestment no doubt leads to productivity enhancement, profitability and efficiency but many of the MOUs die in paper due the promises apprehensive with jeopardy. The acute requirement of infrastructural growth through the initiative of public-private mode could be fulfilled. The trends in cancellation in the water and sewerage sector is very high which is resulting in low level investment of the private sector in the essential public services which is the need of the hour. The author also highlighted the negative impact on employment as a disadvantage of the disinvestment.

REVIEW AND ANALYSIS OF DISINVESTMENT PROCEEDS VIS-À-VIS FINANCIAL PERFORMANCE

Table 1: Macro View of Central Public Sector Enterprises

Year	No. of Operating Enterprises	Net Worth (Rs. Crore)	Net Profit (Rs. Crore)
1997-98	236	134434	13582
1998-99	235	148064	13203
1999-00	232	160674	14331
2000-01	234	171406	15653
2001-02	231	225472	25978
2002-03	226	241846	32344
2003-04	230	291828	52985
2004-05	227	341595	64964
2005-06	226	397275	69536
2006-07	217	452995	81550
2007-08	214	518485	81274
2008-09	213	583144	83867
2009-10	217	652993	92203
2010-11	220	709498	92129
2011-12	225	776162	98246
2012-13	230	850921	114981
2013-14	234	931018	129109

Source: Compiled from various Volume of PSE Survey Reports.



Source: Compiled from various Volume of PSE Survey Report

Figure 1.0

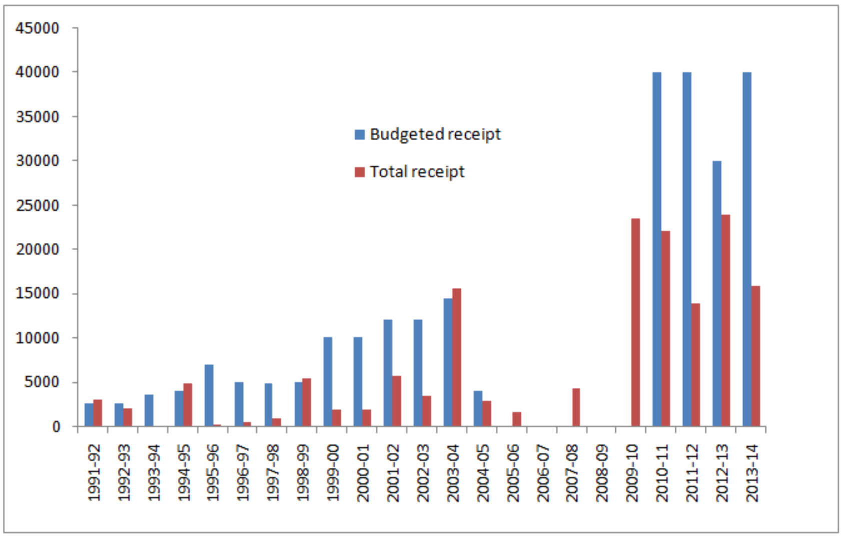
The above table and figure clearly explain the tremendous improvement in net worth of Public Sector Enterprises. This is due to increase in paid up capital and profitability of the operating PSEs.The disinvestment of shares of PSEs fetched good market price which has increased the capital base of PSEs in spite of another fact that certain amount of disinvestment proceeds is also utilized for bridging the fiscal deficit. Moreover the increase in capital employed has also increased the asset base of the company, increasing the asset turnover and thereby increasing the portability of the company.

Table 2: Summary of Receipts From Disinvestment:1991-92 To 2013-14

Year	Budgeted Receipt (Rs. Crore)	Receipts Through Sale of Minority Shareholding in Cpses (Rs. Crore)	Receipts Through Sale of Majority Shareholding of one CPSE to Another CPSE (Rs. Crore)	Receipts Through Strategic Sale (Rs. Crore)	Receipts from other Related Transactions (Rs. Crore)	Receipts from Sale of Residual Shareholding in Disinvested Cpses/Companies (Rs. Crore)	Total Receipt (Rs. Crore)
1991-92	2500.00	3037.74	-	-	-	-	3037.74
1992-93	2500.00	1912.51	-	-	-	-	1912.51
1993-94	3500.00	-	-	-	-	-	-
1994-95	4000.00	4843.10	-	-	-	-	4843.10
1995-96	7000.00	168.48	-	-	-	-	168.48
1996-97	5000.00	379.67	-	-	-	-	379.67
1997-98	4800.00	910.00	-	-	-	-	910.00
1998-99	5000.00	*5371.11	-	-	-	-	5371.11
1999-00	10000.00	**1479.27	-	105.45	275.42	-	1860.14
2000-01	10000.00	-	1317.23	554.03	-	-	1871.26
2001-02	12000.00	-	-	3090.09	2567.60	-	5657.69
2002-03	12000.00	-	-	2252.72	1095.26	-	3347.98
2003-04	14500.00	12741.62	-	342.06	-	2463.73	15547.41
2004-05	4000.00	2700.06	-	-	64.81	-	2764.87
2005-06	No target fixed	-	-	-	2.08	1567.60	1569.68
2006-07	No target fixed	-	-	-	-	-	-
2007-08	No target fixed	1814.45	-	-	-	2366.94	4181.39
2008-09	No target fixed	-	-	-	-	-	-
2009-10	No target fixed	23552.93	-	-	-	-	23552.93
2010-11	40000.00	22144.21	-	-	-	-	22144.21
2011-12	40000.00	13894.05	-	-	-	-	13894.05
2012-13	30000.00	23956.06	-	-	-	-	23956.06
2013-14	40000.00	15819.45	-	-	-	-	15819.45
Grand Total		134724.70	1317.23	6344.35	4005.17	6398.27	152789.72

Source: Compiled from various Volume of PSE Survey Reports.* Out of Rs. 5371.11, Rs. 4184 crore constitute receipts from cross purchase of shares of

ONGC, GAIL and IOC.** Out of Rs. 1479.27, Rs. 459.27 crore constitute receipts from cross purchase of shares of ONGC, GAIL and IOC.



Source: Compiled from various Volume of PSE Survey Reports.

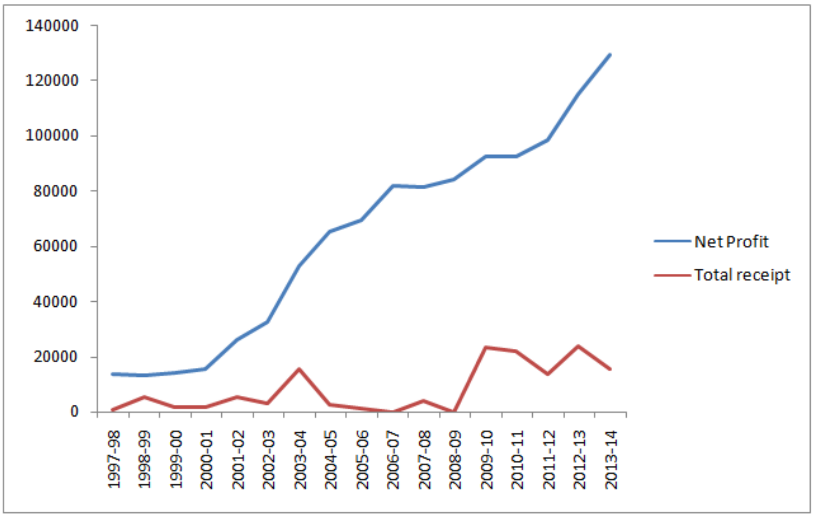
Figure 2.0

The above table and figure clearly explains the disinvestment process is done in an erratic manner and almost each year so far the disinvestment is receipt is lesser than the budgeted receipt. In addition to this there was no disinvestment in year 1993-94, 2006-07, 2008-09. However the performances of the companies were not affected by the disinvestment pattern. This clearly indicates that the companies after entering into self- obligation have understood the factors of sustainability and learned to survive in the competitive environment. Moreover considering the pattern of profit and disinvestment receipt of figure 3.0 clearly indicates that the companies outperformed the disinvestment process with registering huge profits. This could be only possible when the companies were able to eradicate the internal deficiencies which were the reasons for their decline mentioned earlier in point number 3.0

Table 3: Comparison of Net Profit with Disinvestment Receipt

Year	Net Profit (Rs. Crore)	Total Receipt (Rs. Crore)
1997-98	13582	910.00
1998-99	13203	5371.11
1999-00	14331	1860.14
2000-01	15653	1871.26
2001-02	25978	5657.69
2002-03	32344	3347.98
2003-04	52985	15547.41
2004-05	64964	2764.87
2005-06	69536	1569.68
2006-07	81550	-
2007-08	81274	4181.39
2008-09	83867	-
2009-10	92203	23552.93
2010-11	92129	22144.21
2011-12	98246	13894.05
2012-13	114981	23956.06
2013-14	129109	15819.45

Source: Compiled from various Volume of PSE Survey Reports.



Source: Compiled from various Volume of PSE Survey Report

Figure 3.0

CONCLUSIONS

The companies are formed with a concept of going concern with perpetuity and transferability of shares. The management of the organisation are planned to cater to the vision and mission of the organisation and survival circumventing bankruptcy. The question of sustainability arises from the day of incorporation of the companies and the industry under which they are following. However there are certain extraneous uncontrollable factors which play an instrumental role in the sustainability which could be managed if companies are properly proficient with exceptional risk management. Sustainability in general could be applicable to both private as well as public sector enterprises. The paper attempts to exhume other factors for sustainability which are non-financial but could produce miracle changes on the financial factors. These factors could be, such as management of capital expenditure while expansion, diversification and upgradation of technology, support of large research and development activities to understand the mathematics of capital budgeting while implementation of project/select milestones, involvement of research and development in design, innovation of new product, patent benefits, energy conservation with renewable energy technique, cost reduction without compromising the functionality of the product, strategic planning for proper capacity utilization, measurement and management of risk, adoption restructuring route in order to achieve economies of scale as and when needed, managing customer relationship management, aggressive marketing and advertisement, economic value addition via human assets and optimum utilization of human resource, Corporate social responsibility vis-a-vis environmental conservation. The research paperfocused factors of sustainability for CPSUs considering the erratic disinvestment pattern and the utilization of the proceeds thereafter.

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