EXIT OR RENAISSANCE:
Strategic Challenge to Public Sector Enterprises

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ABSTRACT

Public Sector in India was created to take the economy to the commanding heights. Both the central and the state governments have attempted to make the dream materialise. However, in the last few years the wind has started blowing in the opposite direction. Is public sector enterprise as a concept a wrong thing? Or, we have not attempted to take necessary care to understand that they are fundamentally different from private sector enterprises and to be managed differently. This paper takes a fresh look at the whole issue and pleads for fundamental changes in the way they are to be managed to enable them play an effective role to take the economy to the commanding heights.

11.0 EXIT OR RENAISSANCE: Strategic Challenge to Public Sector Enterprises

11.1 Introduction

The post liberalization era in India has major thrust on improving the performance of public sector enterprises and making them globally competitive. The post liberalization policy has three main planks: de-reserving the industry sectors, which were exclusively in the domain of public sector; enforcing uniform regulations to the public sector and the private sector; and adopting the Exit Policy for ailing/non viable enterprises. In the first step, the government reduced the number of industry reserved for public sector from 17 to 6. In respect of second policy change, it brought public sector companies also under the purview of MRTP and Consumer Protection Act, BIFR etc. In respect of the third plank of strategy, the government decided to adopt Exit Policy for ailing, loss making public sector companies.The first preference being to privatize by selling them out, and if that does not materialize, close them down/wind-up. The Exit Policy is more of a philosophical issue that is not being effected through legislation, but through executive action. Many state governments also seem to be inclined to follow the exit policy, finding it increasingly difficult to support he enterprises with mounting losses. While there may be a need for having a thorough look at the first two planks also, the evidences show that there is an urgent need for having a critical review of the Exit Policy, both from the philosophical and pragmatic angles. In this paper the discussion is focussed on the third issue.

11.2 Exit When?

The issue of exit policy, borrowed from the western world, needs to be reexamined for application in the developing countries like India, where post-independence developmental policies of government were marked with increasing role of public sector. The experience of public sector in India, especially in profitability terms, has not been satisfactory all along, leave alone being exemplary one. But is Exit the answer? Should we throw the baby with the bath-tub? The remedy may turnout to be worse than cure, if not handled properly. This is not to preclude the option of Exit under all circumstances, but to only to tread the path carefully. The experiences indicate that public sector can perform much better, if certain managerial issues are handled properly. Before we go into these aspects, another aspect needs to the examined. Even if we endorse the adoption of Exit Policy, when do we call it a day for particular enterprises? Should “Exit” be announced in the year a company earns a loss for the first time, after five years of successive losses, or ten years? Bharat Heavy Electricals Ltd. at one point of time made losses for more than a decade, to emerge not only as a better performer, but also becming one of the world ranking organization and it is one of Nav Ratnas today. Scooters India Limited story is even more fascinating. The company earned a net profit for the first time in its silver jubilee year. Surely, the financial restructuring under BIFR also played an important role in bringing the company to net profit position. But the main credit goes to the grit and the hard toil of the team of workers and officers and a new, determined leader. The company gave an exemplary performance improving organisational efficiency, both in physical and financial terms with depleted skills. If leadership can make a difference at any stage of an organization’s life, is it not the issue of “Exit” more an acceptance of failure in providing proper leadership rather than an economic policy issue? Does not rushing to call “Exit” tantamount to accepting a soft option at political and bureaucratic levels at very high national costs, arising from their (i) failure in properly selecting the leaders (ii) indulgence/ interference in running of the enterprises and (iii) shirking of the responsibility of providing timely support and assistance to the enterprises..

11.3 Exit Where?

Another equally important issue related to Exit Policy in the context of developing countries like India, is “Where to Exit”. The issue has two dimensions; one, the cost of sunk resources and the other, the humane consideration. It is easy to discard the issue of sunk cost on the argument that it can’t be used to justify mounting losses. But (in aggregate form) it is a vital consideration, as developing countries like India, marked with acute shortage of resources, can not afford to throw away the resources of firms in developed countries do. The collective of physical assets of an organization is more than what bits and prices of individual assets would fetch. The issue is more of a restructuring the composition of organisational assets, rather than selling them off that would occur in accepting the “closing down” option.

The other dimension of "Exit where" relates to the human aspect, which is too vital to be ignored when a company faces closure. What do we do with the manpower? The issue is not as critical in the context of developed countries, with economy operating at 90-95% employment levels. Closing down a firm is not a bane in the developed countries as the employees can get an alternate employment easily. Further, during the period of unemployment, they are covered under social security schemes that meet their subsistence requirements. This is not the case in India. Here, when a firm closes down, the employees do not get an alternative employment so easily. Indeed, at times they don't get any. This holds more so in the in the case of many of the public sector companies, especially the state government enterprises, which were established in the far flung, remote areas. Not only the employees, but their whole family suffers with the loss of wages. It is a question of survival of the family and in the long term it may lead to perpetuation of poverty.

11.4 Needed a Renaissance

The poor state of the public sector enterprises seems to be more an issue of renaissance than a technical matter of improving management practices, technology or strategy. There is apparently no dearth of resources for making them a tool for economic development, taking the economy to commanding heights as Nehru used to say, What is needed is to develop a mechanism to deploy the resources properly. This requires correction in the basics; a change in the mindsets i.e., the way of looking at things, the perception of self, the self- realization. It is the mindset that holds the enterprises from performing to the potential at any point of time. What is this mindset? The experiences show that there are several aspects of the mindset, which need to be corrected or substituted by new ones, at various levels, as discussed below.

11.4.1 Profits are Necessary

The first and the foremost element of the mindset that needs to change is that, "profits are not necessary". This would be noticed from the planning and control systems of a typical public sector enterprise. With the government funding the losses as owner on the one hand and profit making being decried by the public on the other, it was a very comfortable and stable equilibrium condition for all concerned in many enterprises. There was neither the pressure for survival, nor demand for superior performance from owners. Under the changed circumstances, the key decision makers of the public sector enterprises at all the three levels; the enterprise level, the bureaucratic level and the political level, must realize that every public sector enterprise, indeed every unit of it, must make profit. They must understand that profit is not only desirable, but necessary for the survival of the enterprises and for the growth and development of the economy. Further, it should not be treated as a matter of one year or average over few years. The enterprise must make profit every year, even in the year of establishment itself. The acceptance of change in the profit premise shall have far reaching impact on the efficient use of organizational resources, both physical and intellectual. It will also lead to dynamic augmentation of organizational resources, while existing ones are being exploited. The enterprises will be proactive in identifying the opportunities and developing competencies. The enterprises will be more steady and sustained in their growth through planned efforts. There may also be no need for undertaking so many modernization programmes, which are nothing but reflection of not completing the tasks of constantly updating the organization, a task that typically remains neglected for years. Sound management concepts and practices in planning, control, management of motivation as well as in other areas will come into use,

11.4.2 Profiteering is Not Desirable

The suggestion to consider profit as necessary is a qualified one, failing which it could lead to undesirable consequences. The public sector enterprises must make profit, but not indulge in profiteering. In the past, the word profits and profiteering seem to have been confused. Many public sector enterprises were really or virtually a monopoly, yet they continued to post losses year after year. The pretext of social objective used till recently, allowed loss making operation in the public sector enterprises, which was used more as an alibi to camouflage vested interests operating at various levels, rather than a genuine concern for social objectives. Profitable operations were decried as exploitation of the poor customers. In the process inefficient operations, unwarranted expenses and bad management practices became prevalent. With state monopoly on the one hand, and loss making performances of the enterprises on the other, we had a very unique situation that of disguised profiteering. Customers were to pay for product/ services in full, despite inadequate, deficient and improper products / services. With the deregulation of many industries, the market forces will reduce the chances of such monopolistic exploitation of customers. However, there is still a room for laxity as bench marking of public sector has traditionally been done with domestic private sector, which by itself is not a model of efficient operations. It has been benefiting as much from regulatory regime as the public sector, which is amply demonstrated by the fact that private sector is facing the crisis of survival on opening of Indian economy much the same way. There is a need for developing a new model for efficient operations reflected in terms of profits (such as bench marking their operations with global leaders), without the curse of profiteering, which needs and will continue to be decried.

11.4.3 Follow the Principle of Equitable Sacrifice

An organization is a cooperative system having several stakeholders, such as the customers, the supplies, the employees, the financial institutions, the owners and the plant & machinery. Each one of them contributes something and expects something in return to his satisfaction. The customer's pay the price and want to have product that satisfies them. The suppliers provide raw material and components and want steady payment to their satisfaction. The employees give their efforts and wish to have compensation to their satisfaction. The owners provide capital and have the expectation of dividend and capital gains. The plant and machinery, the buildings etc. also make contribution much the same way as the labour and other input suppliers and require maintenance and timely up-gradation in return. These expectations change constantly and the corporate management has to maintain a dynamic equilibrium between the expectations and contribution of all the constituent members of the organization as a cooperative system. There is a wide cushion between what the organization gives and what a member wants before he quits the membership of the organization or withdraws his support.

So long as the environment is conducive and the sum total of member contribution is more than the members' expectations from the organization in return for their contribution, the organization does not run into difficulties. As the margin between expectations and contribution starts reducing, the organization starts facing the threat of survival.

How does it happen? The equity principles start getting vitiated depending upon the bargaining power of the constituent members. In this power game the principle of equity starts suffering. A stage comes sooner or later that for one or more of the stakeholders, the margin between what he expects and what he gets from the organization reduces to zero or becomes negative, making him withdraw his contribution. This sets a chain reaction, which leads ultimately to a situation where several members start withdrawing their contribution from the organisation, one after the other. Because of the monopolistic conditions, the first the victim is the helpless customer, while others like suppliers, employees, financial institutions and owners thrive on customers' helplessness. As the market tends competitive, customer is not prepared to pay as much as he was paying earlier or does not want the product. The victim then is the plant and machinery. Its share of maintenance and renovation (depreciation) is used away to pay others. The next victim is either owner or the employee. If the owners are more powerful, they tend to deny employees and vice versa. The next victim typically is financial institution and bank. The axe then falls on the suppliers. Finally it falls on both the employees as well as the owners, both losing out permanently, the employees their jobs and the owners their capital.

This relationship needs to be changed. Each constituent member must get a reasonable return for his contribution. The equilibrium can be maintained by adopting and honouring two cardinal principles, the principle of entitlement and the principle of equitable sacrifice. While these are applicable to all the members of organization as a cooperative system, they can be positively applied to more enduring members: the owners, employees, plant and machinery and the financial institutions. If there are enduring customers and suppliers, the principle may be extended to them also, but it will be more difficult and complex to apply in their cases.

The principles can be operationalised in the following manner. First, each stakeholder (employees, financial institution, owner etc.) must realise/ made to realise that contribution of every other member is as significant for the organisation's survival and success as his own and each one is entitled for a fair or reasonable payment for his contribution. As the employees are entitled for their salary, the owners are also entitled for some reasonable dividend, say 10% on capital employed. Similarly the plant and machinery, building and other fixed assets are entitled for reasonable maintenance and renovation charges (depreciation) ranging from 5% to 40% depending upon the asset. The financial institutions too are entitled for certain reasonable charges on funds supplied, say 15%.

Now from the price that the customer is prepared to pay (P), the payment to suppliers that they are prepared to accept is made (S) to arrive at balance

(B). The sum total of entitlements of employees, owners, plant and machinery and financial institutions (E) is then tallied with the balance (B). If the balance (B) turns out to be less than the sum of entitlements (E), each of the members has to make a sacrifice say X1%. The total value of entitlements get reduced by that amount and tallied with balance (B). If new entitlement (E1) is also more than the balance (B), a higher further sacrifice X2% is agreed to make total entitlement come down to E2 which is tallied with balance (B). This process should continue up to a sacrifice level that the reduced value of total entitlement becomes equal to or less than balance (B). At this level, the equilibrium is struck. The sacrifices made may be acknowledged as deferred payment. Better still, the members may be compensated with the issue of equity shares of equivalent amount. No payment of interest on deferred payment, however, is to be made and no dividend is to be paid until the company starts earning net profit. In the cases of deferred payments, only the principal is to be repaid.

	P-S= B = E	Most acceptable state---------------(1)
If that is not feasible	P-S=B = (1-X1*100) E= E1	Next acceptable state----------------(2)
If that is not feasible	P-S=B = (1-X2*100) E= E2	Next acceptable state----------------(3)
If that is not feasible	P-S=B = (1-Xn*100) E= En	Eventual acceptable state-----------(4)

An organization following the principle of equity can not run on loss. Indeed, over a period of time it will turn proactive, enlightened organization, moving from one level of prosperity to another.

The above approach may look impractical at the first instance. A little careful thought, however, will reveal that it is not so. The reason for such optimism is the fact that the basic factor underlying the poor performance of public sector enterprises is the lack of concern and indifference at various levels regarding the optimal utilization of available resources. With the application of principle of equity wastage of all kinds will reduce, innovation and coordinated action for growth and development will be taken up. All this is not happening because of lack of sense of ownership and low stakes of all concerned. Once the stakes are increased for the collective, such indifference and lack of concern would start disappearing from the organization. The organization structure, system and processes would also start getting corrected and customer focus will increase. This all will happen because only by doing this the level of sacrifice being made by every one can be reduced.

11.4.4 Development of New Products is Imperative

New product development is not in the priority list of the public sector enterprises. Manufacturing and supply of products by repeated import of technology is the hallmark of their growth strategy. A major renaissance has to take place at the policy and enterprise levels to benefit from the new product development activity. The virtues of new product development for profitable operation is not being realized, which can be a boon to this country having a population of over 1000 million people.

A manufacturer, who designs and develops the new product technology has complete control over every factor of production, be it the raw material or component supplies, the technique of production, or the modification, reduction or addition of the design features etc. Although the process of new product development is an arduous, long and painful one, it fetches rich dividends in the years to come, to the organization concerned in particular and the country in general. It enables the organizations to adjust / modify the design features, reduce the costs and change the after sales service parameters that suit the customer requirements. It also helps the organization to make best use of its resources (especially the human resources), develop internal strengths to be able to have control over all the ingredients of product design and manufacture. It also impresses upon and helps in the development of the efficient production methods. The new product development activity, thus, helps in making the product and price attractive to the customer on the one hand, and reduces the capital investment requirements on the other. It also augments the organization's ability to develop radically different products, which is necessary for sharpening the competitive edge, both for domestic as well as the international markets.

New product development activity in India has been at a low key ever since independence. The efforts in the name of new product developments have primarily focussed on minor modifications in the imported designs to suit the requirements of the domestic markets. Little efforts seem to have been made for developing radically different new products from concept level, rooted in the socio-cultural context of the country.

Public sector enterprises have enough in-house capabilities to engage in the new product development activity. It does not need to be at grand scale to start with. The enterprise management, however, must realise that future depends upon how fast they can move on this front, rather than on the poor imitations manufactured through import of technology. The task may be difficult to start with, but once it catches up, it will give enormous confidence to carry it on. The enterprises may interface with the technical and management institutions as well as the industry and the non-corporate sectors for getting solutions to their problems relating to the new product development activity.

All round efforts would also be required at political and policy levels to encourage and facilitate the enterprises to help them undertake the tough task of new product development. New product development activity will not take roots in the country on its own without it, in view of the powerful forces working against it. For example, there are quick returns possible by manufacturing products designed abroad, by importing technology. There is a lack of competitive forces in the domestic sector, as all the competitors are following the strategy of growth through import of technology for feeding the large (often- starving) domestic market to make a fast buck. These are too powerful forces, which deter a firm from taking up new product development route for managing growth.

The government must provide strong positive incentives and protect the firms engaging in new product development from those competing with manufacture through import of technology. There is also a need for promoting special, exclusive institutions, which can impart education and training in the new product development. What should be the actual modalities involved has to be thought through. But integrating the idea generation abilities, the design skills to fructify the idea (and make it attractive to the end user is totality) and the managerial skills to be able to manufacture the product in economically viable manner is imperative.

11.4.5 Any Leader Won’t Do

The role of Chief Executive is a critical one, any Tom, Dick & Harry won’t do. The Chief Executive is the shaper of future of any organization; which requires commitment to the organization; missionary zeal and abilities of a transformational leader. An inappropriate and incompetent leadership can play havoc. A major renaissance has to take place in political and bureaucratic circles in this regard. They must realize the significance of their decisions (appointing the chief executive) to the process of economic development and performance of micro organizations, i.e.,the enterprise, as the delivery system.

Unfortunately despite all liberalization being done to fuel economic resurgence, no perceptible change is taking place in the handling of public sector enterprises by the politicians and the bureaucrats. The appointment of transformational leaders as Chief Executive, rather than pushing themselves to the slots, can only bring down the performance of the enterprises, when putting even a successful operations executive may not be able to make the enterprise perform well. Experiences have shown that in many cases such appointments have made the companies sick. Some performers have become BIFR cases overnight. This is despite the fact that there are many bright and intelligent persons available in both bureaucratic and political streams in the country. But it requires a reorientation. The political and the bureaucratic streams were designed and created to perform different roles. The politicians were to reflect the public wishes to make public policies, and bureaucracy was to facilitate the micro level delivery systems (i.e., the enterprises) in getting the policies executed, efficiently, speedily and effectively. They were not designed to become a part of delivery system itself as the Chief Executive. If any particular politician or bureaucrat wishes to serve in this way, he must acquire necessary technical and managerial competencies and be prepared to commit to the organization (the enterprise) for a definite period of say 3-5 years. He must also be prepared to accept payment as any regular chief executive, based upon the principle of equitable sacrifice mentioned earlier. Of course he must also get a share in the prosperity of the company as in the private sector. But it should be based upon profitable operations of the company during his tenure as well as for an equal period after his relinquishing the office. He must be prepared to bear the consequences of a mal-performing enterprise and come forward to own the responsibility of enterprise's poor performance.

11.4.6 Treat Public Sector as Different from Private Sector

Public Sector is genetically different from the private sector. They are different species and serve different purposes of the society. The impact of ownership on management of an organization is profound and widespread. Despite over fifty years of experience neither the policy makers, nor the mangers, nor the scholars have accepted the fact openly and categorically and differentiated the public sector enterprises from the private sector from management point of view.

The result is that no effort has been made to develop new models for management of public sector enterprises. For example, it is not realized that individual public sector enterprises are open system, not a closed system like a typical domestic private sector enterprise. This openness is not in terms of environmental linkages that is common to all, but in terms of ownership. In the case of domestic private sector, the top management, especially the position of Chief Executive is very clear, on account of personal holding of equity shares by an individual and his close associates. The final decision-maker is thus clear, be it good or bad. His concerns are simple and clear, to make profits. If the firm does not make profit, he also loses with the firm. At the same time he has enough decision making powers to mend the ways.

Public sector enterprises on the other hand do not have such a single point decision maker at the top. Indeed, there is a confluence of three different streams of persons, namely the political, the bureaucratic and the enterprise (Chief Executive). Each one of them has very different background, experience, concerns and stakes. They bring different interests, perspectives and pressures in the decision making at the top level, which are not always and necessarily in the best interest of the public sector enterprise. The decision processes often get topsy-turvy. The mundane, operating decisions become the menu of the Board, higher levels of decision making. the strategic decisions get neglected and resource allocations get vitiated. The Chief Executive of the enterprise gets squeezed between the bureaucratic/ political pressure at the top and the union and hostile peers below him. It requires a charismatic person to manage the situation. An ordinary mortal has to frequently resort to the use of political processes to survive, which often results in promotion of the less competent persons and frustration to the more competent ones. The whole organization structure becomes hazy and the control systems get buggered up.

There is a need to face the reality and accept the fact that ownership has an influence on the management, as a first step towards development of new models for management of public sector enterprises. The use of memorandum of understanding was one such step, but got vitiated because of partial understanding and mechanistic handling of the concept. The solutions may not lie in the management literature that we borrow from elsewhere, as no other county has this type of firms (public sector enterprises) that are created in a society, which is very different from the rest, having the task of managing development in a democratic manner, in a backward country having a population of over 1000 million, with highest illiteracy level.

11.4.7 Need for Change in the Role of Labour Unions

The labour union movement in India started with the objective of protecting the hapless labour from the exploitation by mighty (owner) managers, in the private sector. Various labour legislations like Industrial Disputes Act, Trade Union Act etc., were introduced to strengthen the trade unions movement for protecting the interest of workers. This succeeded to a great extent in achieving its objective. In the public sector enterprises, however, this kind of worker exploitation was not expected from the owner, because the owner as a concept had no interest in exploitation of labour to earn any private profit. There was a need to have more relevant labour laws to take care of the workers' interests. However, the same acts were applied to the public sector enterprises. The short tenured Chief Executive/ Top Management in the public sector enterprises, not having any personal stakes for earning profits on the one hand, and having to face the all powerful unions (seeking increasingly high levels of benefits) on the other, more often than not accept the demands of unions that are not in the best interest of the enterprises in the long run. This leads to appeasement, succumbing to all powerful unions in respect of lower efficiencies of all kinds, payments not commensurate with performance, loss of production and hence the profit.

Under the changed circumstances, when the government can not support losses, and in the face of imminent closure of the enterprises, the unions have to realize that they have now a new role to play; that of protecting the company also rather than the interest of workers only. They have to help in reducing the losses and in increasing the labour efficiency and effectiveness. They have to plead/ undertake human resource development programmes for the workers to meet the new challenges. They can not just claim the right to ensure workers benefits, but also must ensure that workers fulfil their obligation to the organization, make certain that the organization runs in profit. The menace of multiple unionism has to be contained to save the enterprises. They have to assume charge of bringing to book the corrupt elements, initiate waste/cost reduction programes, and quality improvement movements, undertake active interest in increasing workers skills, ethics and motivation to get the best from them and avoid wasteful confrontations.

11.5 Conclusions

Public Sector in India was created to take the economy to the commanding heights. Both the central and the state governments have attempted to make the dream materialise. However, in the last few years the wind has started blowing in the opposite direction. Is public sector enterprise as a concept a wrong thing? Or, we have not attempted to take necessary care to understand that they are fundamentally different from private sector enterprises and to be managed differently. This paper takes a fresh look at the whole issue and pleads for fundamental changes in the way they are to be managed to enable them play an effective role to take the economy to the commanding heights.