Chapter VIII

CONCLUDING OBSERVATIONS & SUGGESTIONS

I. Introduction :

The theories on 'economic development of an underdeveloped economy' emphasise the rapid growth of industrialisation. The State's advantageous position in this respect makes the process of industrialisation easier. In India, the systematic entry of Government in business took place during the second half of the nineteenth century when the British Government set-up many workshops and factories in different parts of the India, especially in Bengal for some political and socio-economic reasons. After independence, the adoption of 'socialistic pattern of society' and thereby passing of several 'Industrial Policy Resolutions' emphasised on direct participation of both the Central and State Governments in industries in core sectors.

Industrially, Bengal was the pioneer State and Calcutta was the so called industrial capital of undivided India. The locational advantage, the infrastructural facility, wide hinterland and availability of raw materials and skilled

personnels helped the State in having largest number of registered factories and in producing more than 25 per cent of total industrial production of India in 1961. But gradually the scene changed adversely due to some changes in central governments policy and socio-political reasons and West Bengal's share in industrial production fell to 11.9 per cent in 1978. Between 1964 and 1978, the State had a lowest rate of fixed capital formation in India, registering 4.2 per cent only. The industries of the State like jute and engineering which once flourished during the colonial period were either closing down or getting sick due to lack of modernisation and diversification. Moreover, there were uneven industrial development in the State till 1980's.

Recently, State Government has come in a big way to boost the balanced regional growth of industries throughout the State by setting up industries, both in the public as well as in private sectors. Atleast, 20 private sector sick industries units were taken over by the State Government and were placed under the administrative control of Industrial Reconstruction Department to give them a new life in order to protect the employment of some 11,429 persons. Moreover, the State Government had concentrated more on direct intervention in the industrial development. Most of the State level public enterprises (SLPEs), numbering 43 out of a total of 63, were set up through Fourth to Sixth Five Year Plans. In fact, the

State Government by fostering the growth of these enterprises tried to cover up the inadequacy of industrial investment in the State and conceived these SLPEs as a superior form of delivery system, especially with respect to welfare function. The overall index of industrial production in the State (base 1970 = 100) which had once recorded 102.7 in 1975 increased significantly to 149.0 in 1993.

Although, West Bengal has the distinction of having the third largest number of SLPEs and being fifth in terms of the total investment in these enterprises in the country, it has also the distinction of having the largest number of SLPEs on the score of 'accumulated losses' and the performance of these SLPEs came in for strong criticism from all corners. In fact, they failed to rise upto the challenges posed by the policy makers in the State. The problems of SLPEs in the State are so complex and their solution has become a matter of such national importance that a study of their performance and sorting out their drawbacks areas will be very helpful to the planners at a time when the country, as well as the State is facing a severe resource crunch and the pressure is building up to accelerate the tempo of economic growth. Moreover, the new economic policy of the Central Government, posing a threat of withdrawal of fiscal support to public sector units, the acceptance of the exist policy and the privatisation of public sector units have upset many of the public sector enterprises in the State which are still in the process of being rehabilated.

However, the performance evaluation of these SLPEs has become very complex because of hybrid nature of the SLPEs and their multiplicity of objectives. The Committee on public undertakings in its 40th report (Fifth Lok Sabha) on the 'Role and Achievement of Public Undertakings' suggested the quantification of performance in terms of profits with due regard to their social obligations. Most of the experts on public sector are of the view that the following three criteria with appropriate parametric values be part of any system of performance evaluation of public enterprises : (i) productive efficiency of public enterprises; (ii) financial profitability of public enterprises; and (iii) social profitability.

In order to make the study purposeful, an humble attempt has been made to evaluate the various areas of performance with a severe constraint of non-availability of data and information of SLPEs. Moreover, the negative values of profit, net worth, capital employed, net working capital in most of the SLPEs under manufacturing sector made the analysis of profitability more complex and discouraging. Since the indepth study of SLPEs in West Bengal was overdue for long, we have made a daring attempt to analyse the various aspects of organisational, financial, production and social performance of SLPEs in the State.

Our sample consists of 14 units out of a total of 63 SLPEs in West Bengal, representing mostly the manufacturing

enterprises and a few financial, trading, service and promotional enterprises. Wherever possible, we have covered a larger samples based on the availability of data. Although, the study covers a period of seven years from 1984-85 to 1990-91, we assume the study will be a latest one since no major changes has taken place in financial or in other areas in SLPEs till date. We also assume that the sample will be a representative one since it is based on random selection, having various types of units such as profit making and loss-making, big and small, manufacturing and non-manufacturing, purely state owned and taken over units.

II. Constraints and Problems of SLPEs in West Bengal —— A Survey :

A beforehand knowledge of constraints and problems of SLPEs in West Bengal is a must in view of performance evaluation in right perspective. It will not only ensure the true view of performance evaluation but also ensure the right degree of accountability for right persons. As we know that in case of public sector, a lot of decisions relating to policy matters are in the hands of Government which affects the commercial profitability and other performances of SLPEs to a large extent. Such constraints are not felt in case of private sector enterprises. The greatest constraint of

SLPEs relates to arrangement of finance for expansion as well as for day to day expenses. The management in case of public sector also feels tight handed in case of personnel management which is largely affected by the philosophy of ruling party. The social obligations of SLPEs is another constraint in the way of profitability. In fact, public sector enterprises are seen as a extension of government's welfare wing.

Some of the constraints are imposed by the institutional framework, political appointments, political interference in management, low pay to executives, poortly defined objectives and poor performance audit. The creation of surplus capacity in anticipation of future demand and appointment of excess staff in view of capacity, heavy expenditure on the provision of township and social aminities, the soft, liberal and uneconomic labour policy, fair business practices and too much adherence of procedures rather than risk taking attitude of management also imposes severe constraints on the overall performance of SLPEs in West Bengal.

The functional problems of SLPEs in West Bengal are insurmountable and a deep financial trouble prevails in almost all the SLPEs in the State. A classification of such problems reveals that they are commercial, financial, technical and managerial problems. Commercially, these enterprises are suffering on account of creation of surplus production capacity, non-availability of a few raw materials and spare parts,

lack of freedom to diversify the products, total dependence on a particular market, and supply of goods and services at a subsidised price.

Financially, most of SLPEs are theoretically insolvent. They cannot make payment of their current obligations without State Government's assistance, which itself is irregular. They occasionally fail to fulfil their commitment to supply goods in time due to shortage of working fund, resulting in loss of orders etc. Blockade of working fund in inventories and receivables has watered down the management of working capital. The overhauling and renovation of plants and machineries has been held up due to lack of fund required for the purpose, causing severe constraint on the production activities. The defective and highly geared capital causes outflow of a good proportion of income in form of interest.

The technical problem due to age old wornout plants and machineries is a common problem in almost all the SLPEs. They also suffer a lot or account of outdated technology and lack of balancing equipments. The glaring example is Durgapur Chemicals Ltd. which had to stop production activities for a year long due to sudden collapse of a few plants. The inapt site selection and inappropriate technology at the initial stage also hampers the overall performance of many SLPEs.

The managerial problems owes largely to the composition of board of directors and lack of autonomy. The lack of professionalism due to low salary and lack of scope for career advancement failed to make the enterprise commercially competent. The large scale appointment of civil servants in commercial SLPEs debarred these enterprises to utilise their business opportunities to full extent. Moreover, their orientation and training are at the bay and are devoid of any flavour of commercial aptitude. The management at many instances find themselves helpless to help the organisation since their proposals to concerned authorities are usually turned down on plea of shortage of funds or on some social considerations. The overall plan and policies of the State Government overlap the business policies of commercial SLPEs and donot help in enabling these enterprises to compete with private sector enterprises.

III. Organisational Structure and Management of SLPEs In West Bengal :

Sound organisational structure and good management are essential pre-requisite for the success of an enterprise. The organisational structure and management of SLPEs should be such as to ensure operational efficiency and financial flexibility without reducing their accountability to the people and the government. But to achieve the success, a

fair degree of autonomy and clearly defined objective must be ensured to them. In practice, the top management style in most of the SLPEs has been found to be more bureaucratic and technocratic and less parternatistic and pragmatic than of private sector enterprises. Excessive centralisation and bureaucracy have also distorted the very concept of various types of organisational structures adopted by the SLPEs.

The SLPEs in West Bengal have been organised mainly in the company form of organisation. The proportion of statutory corporations is about ten per cent and that of departmental and others is insignificant. These SLPEs in the State have been placed under the administrative control of atleast 16 different departments of Government of West Bengal. In view of their large number and wide spread activities, a few coordinating agencies are in vogue; viz. Department of Public Undertakings, Standing Advisory Committee, Public Enterprise Cell, The Standing Selection Board, State Planning Board etc. They carry on a number of activities for performance evaluation of SLPEs, apart from guiding and assisting them. They have also been authorised to examine the proposals of diversification and expansion programmes of these SLPEs and recommend the same to the concerned ministry.

The Board of Management of these SLPEs have been found to be loaded with bureaucrats from WBCS and IAS. The proportion of professionals in the Board is not significant in spite

of new liberalised and market orientated economy. The financial SLPEs have largest number of institutional nominees. The style and type of functioning of these Boards is quite different than that of private sector even in case of commercial organisations. The Board is much procedure conscious rather than of risk taking aptitude to solve the problems at their disposals. However, they have very little saying in policy matters. Their proposals are sometimes turned down on account of shortage of fund or lack of initiative on the part of Government. Thus, the power of final decision making often shifts to the Ministry concerned. Even with these limitations, the Board could have performed usefully if they were well constituted. The Government's directors are usually there by virtue of their official position as joint secretary or financial advisor, and no selection is involved. The selection of part time non-official directors is rarely based on considerations of qualification and usefulness and is more often an exercise of patronage. Moreover, the process of selection and approval take so much time that the Boards often function for long period with numerous vacancies.

IV. Management of Capital Structure and Financing Pattern :

The 'Capital structure' which is essentially a relationship between debt and equity has many implications on profitability and riskiness of an enterprise. A highly geared

capital structure which implies a larger proportion of debt compared to equity capital enhances the profitability and market value of shares when the earnings on borrowed fund is more than its cost and vice-versa. Moreover, debt financing does not dilute the hold of the equity shareholders and can be refunded in case of surplus capital.

But there are certain limitations in having desired proportion of debt in the capital structure. The new enterprises with uncertain returns and even the old enterprises with a highly fluctuating demand for its products can not opt for financing to a required level of 2:1. Other factors which influences a proper mix of debt and equity in the capital structure are nature of the business, state of capital market, the magnitude of the proposed investment, investor's preference, interest rates, Government's policy including taxation etc.

Unlike the private sector, the concept of capital structure does not hold good in a same degree, to a public sector enterprise. It is immaterial whether the Government receives payment by way of interest or dividend. The question of dilution of control also does not arise since the majority of shares are being held by the Government. However, State Government's preference for more and more debt in the capital structure may be explained in terms of her compulsion to repay interest to its funding agencies. Moreover, the burden

of interest payment compels the SLPEs to be efficient ones.

An analysis of capital structure of SLPEs reveals a wide variation in capital structure and the debt component in the total capital stands four times of equity on an average. This, in no way does satisfy the criteria of 2:1 as set by financial experts. Manufacturing and financial enterprises have a large proportion of debt compared to promotional and welfare enterprises. Moreover, the accumulation of due interest on borrowed fund keeps enlarging the size of debt in the capital structure of manufacturing enterprises.

A separate analysis of various components of equity capital reveals that except trading enterprise, the proportion of reserve and surplus in equity base is marginal in majority of SLPEs. Due to 'Cash-loss' position of most of the SLPEs, the depreciation fund also does not prove helpful in financing. On the other hand, the debt analysis shows that the loan from other sources than budgeted resource of the State Government is nominal in the SLPEs except financial and promotional enterprises. The reasons being the prolonged sickness of most of the manufacturing enterprises which debarred themselves from mopping funds from financial institutions.

A close examination of composition of assets shows that investment in fixed assets consists of 43 per cent of total resources in case of manufacturing enterprises. But the

fictitious assets, mostly as accumulated-losses have eaten away 44 per cent of their total resources, causing a great imbalances, in profitability position. This left very little for working capital and for investment in other fixed assets. The position of composition of assets is just reverse in trading and service sector where working capital itself accounts for 67 per cent of total resources. There is no 'fictitious assets' except 'deferred revenue expenditure' to the tune of 1.4 per cent only of their total resources. This is due to their least investment in fixed assets as per the requirement of their business and also due to their large profitability by virtue of monopoly in the market. But, the overall situation of assets composition of most of the SLPEs is quite unsatisfactory due to huge 'accumulated losses' which have distorted considerably the balance between the capital structure and the assets composition.

An examination of sources of finance highlights that SLPEs are largely dependent on State Government's loans and other financial assistance rather than institutional or other loans. The volume of internal source, comprising of 'reserve and surplus' and depreciation fund' etc. are insignificant due to prolonged sickness of most of the SLPEs. The 'cash credit' arrangement of many of the SLPEs have been stopped by the banks in recent years due to their loss of credit worthiness and recurring defaults. Naturally, the SLPEs have no

way out rather than holding the appendage of State Government for all sorts of financial needs. But due to financial crunch, the State Government also finds it very difficult to shoulder such responsibility any longer, especially with regard to renovation and/or expansion programmes of SLPEs. The financial situation in a few manufacturing SLPEs have deteriorated to such an extent that they have been compelled to divert a part of their 'long term funds' to finance their day to day operating expenditure. Such a diversification of fund is not desirable from the point of view of prudent financial management. The only exception is trading and warehousing enterprises which enjoy State's patronage and monopoly in the market. They use to plough back their own profits for both the long term and short term financial needs. On the other hand, financial sector State enterprises are heavily dependent on long term funds from central financial institutions. The promotional enterprises get grants and subsidies in a big way from both the State and Central Governments.

V. Management of Working Capital:

The efficient management of short term finance (i.e., working capital) is one of the main areas of responsibility of financial management. Working Capital has been defined by many of the financial experts as 'excess of current assets

over current liabilities', which is termed as 'net working capital' and is of special interest to sundry creditors and suppliers of short term loans and advances. Every management tries to have sufficient cash and uninterrupted cash inflows to pay off the creditors and others in time. This is called the liquidity objective of working capital management. But the liquid assets bear a cost of capital affecting the profitability of a business. As a result, every financial manager tries to strike a optimum balance between the liquidity and profitability by holding just enough liquid assets. The finance manager dilemma is to how much liquidity to be sacrificied for profit and vice versa. This involves a trade off between risk, uncertainty and profitability.

The importance of working capital can be visualised in the light of its various roles, such as functional, complementary, proportional and technical in earning a reasonable rate of return. It is the working capital which after being converted into saleable products with the help of fixed capital generate revenue for the business. In the sample units, the proportion of working capital to total resources comes, on an average 66 per cent in case of trading and financial sectors but it is exceptionally low in case of manufacturing sector, accounting for 12 per cent of total resources.

It is important to segregate the various components of working capital in order to examine their relationship with

the working capital, as a whole. The components of working capital are —— (i) Inventory; (ii) Cash; (iii) Receivables and (iv) Working Finance. The examination of management of each of these components tells the following story :-

(i) Inventory Management - Inventories as such can be divided into four classes, raw materials, work-in-process, finished goods and stores & spares. The inventory management has to ensure the optimum investment in each of these components. It has a significant effect on the profitability of a firm.

It's analysis reveals that inventory turnover was considerably low indicating accumulation thereof, particularly of stores and spares and work-in-process. It seems that slow moving items of stores and spares have accumulated in a larger proportion. Similarly, long operating cycles, alongwith long productivity of workers in case of engineering enterprises have resulted into huge work-in-process in most of the sample SLPEs. Thus, the disproportionate stock in inventory blocked the working capital unproductively for a longer period of time, causing loss to the SLPEs.

(ii) Cash Management - Cash management is concerned with minimising unproductive cash balances, investing temporarily excess cash advantageously and making the best possible arrangement for meeting unexpected demand for cash. It requires to strike a optimum cash balance which makes a trade-off between risk and return.

The findings of analysis of cash management in sample SLPEs states that (i) growth in size of cash balance at year-ends was higher than the growth in sales; (ii) although cash as a proportion to current assets was as per the norm as suggested by financial experts, it had a upward trend; (iii) the liquidity position of most of the SLPEs was not satisfactory, and SLPEs were at stake, especially in the second half of the period under study; (iv) the value of production generated per rupee of cash held was more or less moderate; (v) a wide variation in all sorts of ratios relating to cash proves lack of cash budgeting and control. It is also indicated that inflows of cash in SLPEs were somewhere jammed by external factors where management had very little to do.

(iii) Receivable Management : Receivables arise out of sale of goods or services on credit and undue bookdebts, notes, bills, accrued income or pre-paid expenses and loans and advances. Receivable management, to be successful must ensure comparatively slow growth in receivables as against sales, satisfactory collection policy, minimum bad debts losses and effective use of capital invested. Thus, the quantum of receivables at a particular point of time is the function of credit sales and credit collection policies.

The findings of analysis of receivable management reveals that on an average receivables consist of 32 per cent of current assets and 60 per cent of sales. In both the cases, manufacturing

sector enterprises have a larger amount of receivables than others. On splitting up, it is found that book debts, one of the two main components of receivables predominated the composition of receivables, representing equivalance of 6 months' turnover on an average. It indicates liberal credit and collection policy of the SLPEs in the State. This may be due to the compulsion of utilising the capacity available or to make inter-department sales on credit, the repayment thereof are normally being delayed. The advances made to suppliers of raw materials and fixed assets are not settled in time which also led to blocking of fund and loss of interest thereon. It seems that there is no well-laid rules of recovery of advances and sale proceads.

(iv) Working Finance Management : A firm generally has diverse sources of working finance and it selects the sources, considering their merits and demerits, subject to the various constraints. Categorically, the sources are classified as long term and short term and, further as internal and external. The permanent portion of total working capital requirements are met by equity and other long term sources whereas, the temporary working capital is financed by short term sources.

The analysis of published data of sample undertakings proved that an excessive investment in inventory and receivables caused shortage of working capital. The other findings of working finance management are (i) atleast 15 per cent of

sample SLPEs have negative working finance (based on net concept) throughout the period, indicating technical insolvency whereas, the other 20 per cent have negative working finance for a couple of years; (ii) a wide variation prevails in the size and composition of working finance over the years in almost all the sample SLPEs, proving lack of planning and control in the management of working finance; (iii) atleast 50 per cent of sample SLPEs mostly in manufacturing sector have inadequate working finance in terms of cost of production and thereby adversely affecting the profitability to the SLPEs; (iv) the growth in working finance over the period under study is slower, compared to growth in size of the business, measured in terms of sales, proving inability of management to arrange additional working finance for additional production; (v) the main sources of working finance in sample SLPEs restricted to 'cash credit arrangement', use of 'depreciation fund' and 'reserves and surplus' as a internal source and diversification of long-term debts, released by the State-Government for modification/expansion.

VI. Evaluation of Financial Performance :

Profit is an important index of financial performance. It is a reward to the investors for parting with their savings and also for taking risks into the business. In public sector

also, profit is desirable for growth and diversification of the business, to pay off the interest on the borrowed fund and to contribute to the national exchequer. When this profit is related to a meaningful parameter such as sales, capital employed, net worth etc., it is termed as profitability. In practice, the concept of profitability is not given due importance in case of public sector enterprises due to the fact that (i) a PE often has low yield or no yield ventures, (ii) the PEs performance in terms of employment, price, quality, employees' welfare are more counted rather than their rate of earning profit, and lastly, (iv) the PE managers are more procedure conscious rather than risk-bearers in order to earn profit. But, we can not ignore the fact that how important it is to earn profit nowadays for the survival of a PE itself in view of resource crunch Indian economy.

In a public enterprise, the calculation of profit, based on our conventional method is misleading. It needs to be adjusted against the various subsidies/hike involved in price of outputs and inputs. This is because the cost of both the inputs and outputs are affected, sometimes favourably and sometimes adversely by the various social factors. Similarly, the criteria based on profitability for judging the performance also varies in case of public enterprise. Some financial experts are of the view that 'gross margin' —— the difference between sales income and costs of production would be a better

indicator rather than 'gross-profit'. The implication of non-economic policy is on the increasing reliance on financial performance, principally on profitability.

The various studies of the profitability of SLPEs in the State, carried on by different parties from time to time have mainly highlighted their drawbacks areas, constraints and their problems. The Public Enterprise Cell, Government of West Bengal have examined all the SLPEs and is of the view that their performance, as a whole is dismal. They are full of problems and deficiencies and unless the management and the labour unions unite together for a common objective of revival, it may be really difficult to extricate the undertakings from deep waters. It is also of the view that their social commitments cannot justify the unviable current operations of most of the SLPEs. Similarly, an independent author, a newspaper and an official committee expressed their views on the poor profitability of the SLPEs in the state. They mainly blamed the management and workers for such pitiable situation of SLPEs. However, they highlighted their financial performance in terms of absolute figures and suggested the State Government to take remedial actions. On the other hand, management of these SLPEs are of the view that they have to perform against numerous odds and under various constraints. They counts with grief the age old plants and machineries, outdated technology, lack of autonomy and last but not the least the acute shortage of working

capital and long term finance.

Our analysis of profitability, based on various facts and figures as published in annual accounts and reports and other publications reveals that four-fifth number of SLPEs in the state are incurring losses since long and the rest one fifth of them earn some profits. The overall result, taking all enterprise together shows a negative figure which causes great dissaving to the resource crunch state economy. The loss making SLPEs belong to high investment manufacturing sector whereas low investment developmental and promotional enterprises are in a lead to earn some profits, followed by financial sector.

The contents of interest payable on borrowed fund in the gross profit is abnormally high, causing huge losses. Had the composition of capital of SLPEs rationally and commercially structured on the basis of a standard debt equity ratio of 2:1, the quantum of loss might not be as much high. The ultimate effect of accumulated losses has upset the total financial structuring. In fact, the accumulated losses of Rs. 540 crores sustained by 29 SLPEs has far exceeded their paid up capital of Rs. 143.14 crores. On the other hand, the cumulative profit stands a little more than Rs. 101 crores. However, the main contribution to such profit comes largely from WBECSCL, a monopoly trading unit of State Government which contributes more than 50 per cent of such

profit. The most remarkable achievement of SLPEs against all odds is that they have recently succeeded in minimising their losses and overall trend of their losses has a downward slope.

An analysis of cost of sales indicates a most vital clue to the causes of losses of SLPEs in the State. In fact, cost of sales itself have exceeded the sales-value in most of the SLPEs. It means, sales price which is either determined by market forces or as per agreement between the management and buyers are not enough, even to cover its cost of production. There may be two reasons for such situation —— one cost of production is higher due to inefficiency at various levels of production and the another reason may be the defective sales price, mutually agreed upon. Sometimes, both the factors contribute to the losses. A further analysis of the components of cost of sales has indicated the extent of loss on account of each and every component.

The proportion of operating expenses are as high as 70 paise per rupee of sales in case of printing and press industry, 56 paise in case of chemical industry, 50 paise in case of pharmaceutical and 40 paise in sugar and power industry. Although the trend of operating expenses is on the falling side in 7 out of 10 manufacturing sample enterprises, its proportion to sales is still higher.

Similarly, the cost of capital is quite higher in atleast 6 out of 11 sample enterprises, where it ranges between 15

paise to 35 paise per rupee of cost of sales. This has enhanced the negative profitability of the SLPEs to a larger extent.

The other components of cost of production viz. employees' cost, material consumption cost, power and fuel cost, etc. have also been examined in view of excessive cost of production. The employees' cost itself has exceeded the sales value in a few SLPEs which is quite an abnormal event. To mention, WSFL, EMAIL and SWL are a few SLPEs where employees' cost has exceeded the sales value. This proves excess permanent staff and workers in terms of present level of production and capacity utilisation. The mismanagement of personnels is also one of the causes of higher employees' cost.

The next important component of cost of sales is material -consumption cost. In fact, public sector enterprises are branded as uneconomic user of materials. The higher proportion of materials' consumption cost to cost of sales is due to two factors --- one is gradual and steep hike in the price of materials and other is misuse of materials due to mishanding and defective and outdated technology. The higher pace of growth of materials consumption compared to growth in sales proves this fact. This is quite visible and abnormally high in case of EMAIL, SWL and WBSIDCL. The value of materials consumed has doubled during the period under study in half of the sample enterprises.

Although the proportion of power and fuel bill to the total cost of sales is less than other cost-components as analysed, there is a tremendous scope to cut down the bill to its optimum size. In fact, power and fuel bill should have positive corelation with the production, but the examination of figures shows that power bill has increased at a higher rate than the sales value over a period of time under study. One out of 10 manufacturing sample enterprise has succeeded in achieving a considerable reduction in power bill by adopting some power-saving measures.

Thus the analysis of various components of cost of sales clearly indicates that costs are exorbitant due to inefficiency at different production levels. To some extent, social considerations like higher wages and salaries, maintaining of excess staff in view of overall unemployment and subsidised prices also effect the profit adversely, but it alone is not enought to justify the huge losses so far. The other factors are defective price fixation, poor utilisation of capacity, lower productivity of workers and staff etc.

Our next area of search for the causes of negative profitability of SLPEs in the State now shifts to 'capacity -utilisation' which reveals that four-fifth of manufacturing SLPEs are having below 50 per cent of their capacity utilisation. 3 out of 10 sample manufacturing enterprises have not even touched a 25 per cent level of capacity utilisation.

To be specific, DPL which is also known as 'industry for industries' could not exceed 34 per cent of its capacity utilisation. Under such circumstances, how can we hope to overcome the situation of negative profitability.

The problem of higher costs, low capacity utilisation etc. is multiplied by the poor productivity of workers and staff as revealed by the analysis. The per employee productivity in terms of value of production is as low as Rs. 34,135 p.a. in case of SLPEs under Department of Public Undertakings and Rs. 50,000 p.a. in case of SLPEs under Industrial Reconstruction Department respectively. These figures proves how the excessive cost of production is caused due to multiple effect of under-utilisation of capacity, poor productivity, mismanagement of workers and staff and mishandling of raw materials, power fuel, etc.

After analysing the various components of costs, capacity utilisation and productivity of workers and their effect on negative profitability, a question crop in — are these enterprises sick ? And if so, to what extent ? To know the exact position, we have applied a test of industrial sickness which suggest that only one third of sample units are healthy ones and the next one third are sick. The balance enterprises are either tending towards sickness or are incipient to sickness. Although the Companies Act does not recognise the sickness in case of a government company, the financial

situation in most of the SLPEs is grave. The negative profitability compounded by negative net worth, capital employed and negative net working capital have ruined the total financial structure of SLPEs in West Bengal. The only hope for their servival rests with the plan and policies of the State Government who in turn, has assumed these SLPEs as failt accompli.

VII. Evaluation of Social Performance :

A modern business has many social obligations because they are seen as creatures of society. In case of public sector enterprises, social considerations are not impositions, rather they are knitted into the system. The fulfilment of social obligations shed its impact on the profitability of an enterprise. It is logically expected that Government should come forward to make good the losses of public enterprises on account of social considerations, otherwise earning power of the capital employed may be impaired.

As a whole, public sector enterprises in India are largely involved in various areas of social performance, viz. consumer affairs, environmental affairs, urban affairs, employee affairs and external relation affairs, depending upon the volume and nature of their business and their financial capacity to afford them. These activities can be viewed

from two angles viz. macro level social obligations, imposed by national plans and policies and micro level social obligations, imposed by different segments of the society.

The evaluation of social performance of SLPEs poses many problems, such as absence of proper evaluation criteria, non-availability of data and information on social performances of public enterprises and great difficulty involved in segregation and quantification of social costs and benefits.

The social performances of SLPEs at macro level in West Bengal are numerous as follows :

As per the statistics of Department of labour, SLPEs' contribution to employment in the state is quite significant, registering an employment of 63 per cent of total vacancies, filled up by the employment exchange in West Bengal within a period of 5 years ending 30th June, 1988. The public sector in the State was ahead of private sector in atleast 6 areas of activities out of a total of 9 areas as tabulated. Moreover, the area of community and social services employ 35 per cent of total employment in public sector in the state.

The SLPEs have also been given added responsibility for rescuing the employment of workers and staff of sick and closed private sector enterprises. So far the SLPEs in the State has taken over 20 sick private units protecting employment of some 11429 persons and ensured them fair wages and salaries.

Till recently, the industrial development in the State was very uneven and mainly confined to Calcutta and near-by districts. The developmental and promotional SLPEs are doing a lot in promoting industrialisation in 'No Industry Districts' of West Bengal. They participate in equity, set up infrastructure and allow various types of incentives for the development of industries in 'No Industry Districts' of the State and thus helps in checking the imbalanced regional growth.

Moreover, the development of cottage and small scale industries has become one of the most important functions of many of the SLPEs in the State. For this purpose, WBSICL, WBFC and WBIDCL are playing a significant role and have succeeded in achieving their targets of promotion of industries.

The welfare SLPEs meant for the development backward communities are directly involved in raising the standard of living of SC and ST men and women through their numerous schemes like family oriented schemes, marketing facilities, training of rural youths, supply of kits and inputs and foodgrains at nominal prices and also provide them financial support.

West Bengal Housing Board has been constructing housing units for the weaker section of society on a large scale. They utilise the 'income from housing units for higher income groups' for the construction of housing units for the

economically weaker sections of the society. In the year 1989-90, they constructed 93 per cent of their housing units for the weaker section of people only. This proves their concern for the majority class of the people.

The social performance of SLPEs in the State at the micro level is not much significant as evidenced by the available data and information. Except employees' welfare, nothing concrete can be visualised in their published reports about the consumers affairs, environmental affairs, urban and external relation affairs etc. In this regard, DPL is the only exception which have invested a lot in all these areas of social obligations. So far employees' welfare is concerned, most of the sample SLPEs have spent a part of their income to the tune of Rs. 1350 p.a. per employee on an average on various heads of employees' affairs such as medical expenses, tiffin expenses, cost of uniform etc. It is also worth noting that loss making SLPEs are spending more on employees' welfare, compared to profit making SLPEs.

One more area of employees' welfare covered by most of the SLPEs is grant of interest free loans to their employees. Such loans are recovered in instalments and ranges between Rs. 250/-p.a. per employee to Rs. 3200/- on an average. Unlike welfare expenses, profit making SLPEs have granted more loans than loss-making enterprises.

The State Government which is the largest shareholder of these SLPEs assumes the social performance of business in a broad prospective. She likes workers' participation in the management in real terms and wants to ensure a stronger and effective social control. The State Govt. is also of the view to set up a fund with joint contribution from both the public and private sectors enterprises in the State for the welfare of the workers in distress.

SUGGESTIONS

On the basis of foregoing analysis and results thereof, the following specific suggestions emerge which may help in reexamining the rationale of SLPEs and their smooth continuance.

I. Regarding Organisation and Management :

(1) In view of absence of professionals in the board of directors of SLPEs in West Bengal, it may be suggested to include quite a number of professionals therein who are backed by the knowledge of State's economy, as well as have commercial aptitude to take appropriate actions without government's interference.

(2) The restructured boards may be granted fair degree of operational autonomy, keeping at bay the resist-

ance of political leaders and trade-unions.

(3) The government-nominated directors need to shift their loyalty from ministry concerned to the Board itself and need to be risk-bearers rather than procedure-conscious as evidenced.

(4) In a board where the number of nominees of financial institutions are quite large, a separate body may be formed for them to represent their interest fairly.

(5) In case of commercial SLPEs, the posts of chairman and managing director may be combined together as 'Chairman-cum-Managing Director' (CMD) but for promotional and development SLPEs, a separate chairman should be appointed in addition to managing director, preferably from the lot of civil-servants and they should be allowed to continue for not less than three years.

(6) The Boards sincerely need to get workers and other staff involved in decision-making procedures and mobilise their sincere help for the cause of efficient working of the enterprise. Similarly, the trade-unions need to have a constructive mood and approach for their own survival in view of new economic policy.

(7) Lastly, it may be suggested to bring all the SLPEs carrying similar type of business under one umbrella organisation, either in the form of holding company with many subsidiaries or integrated company with many units.

II. Regarding Capital Structure and Financing Pattern :

(1) In view of highly imbalanced and highly geared debt-equity ratio of most of the manufacturing SLPEs, it may be suggested to reduce the debt upto the required level of 2:1, either by converting government-loan into equity capital or by enhancing the equity base by issuing fresh equity shares. Moreover, some debts may be written off and some interest holidays or moratoria on repayment may be allowed to sick SLPEs. Issue of preference shares which has an added advantage of secured dividend as and when profit occurs, may be tried in stead of Government loans.

(2) On the line of Central-government undertakings, shares of profit making SLPEs may be disinvested to employees and financial institutions. They may also link their financing with capital market in view of resource-crunch economy of the State.

(3) On the line of advice as suggested by SLPEs Working Group to the Tenth Finance Commission, it is suggested that for SLPEs having larger social obligations, more and more equity capital may be employed as and when required rather than granting government loans.

(4) Lastly, care need to be taken in formulating the restructuring of capital to ensure that 'cash-adequacy' situation of SLPEs are not hampered in doing so.

III. Regarding Management of Working-Capital :

(1) A separate Cell/Department may be introduced in every manufacturing SLPE to look into the affairs of working capital management which is a direct bearing on profitability and infact, consumes much of the time of higher level management.

(2) In view of huge investment and blockade of fund in 'stores & spares', it may be suggested on the line of advice of NCAER study, to have a 'central pooling system' for stores & spares on the basis of industry and/or region for all critical and important items of stores and spares.

(3) In view of unusual and long operating cycles of manufacturing units, it may be suggested to frame

standard work and time schedules based on scientific time and motion study. This need to be adhered to by all concerns sincerely.

(4) In view of shortage of liquid fund, it is suggested to streamline the credit and collection policies and procedures of SLPEs. There is an urgent need to realise the overdue receivables taking all the recourses, including legal actions.

(5) In view of severe shortage of working finance and closure of external sources, it may be suggested to lease out the surplus urban lands and housing complexes to have enough fund for smooth conduct of the business. The leasing of housing complexes to employees' societies may also releive the SLPEs from paying retirement benefits in cash.

IV. Regarding Financial Performance :

(1) In view of cash losses, negative net worth and working capital, a complete restructuring may be suggested for those SLPEs which have better future prospect in order to survive. A restructured debt-equity ratio as suggested earlier will not only save outflow of money on account of interest but will help to judge the inefficiency on commercial lines. Secondly, derating of capacity of plants and machineries as

well as their modernisation may be suggested to improve the quality of the products in view of market-oriented economy and also to acquire optimum utilisation of available human-resource. Thirdly, it may be suggested to improve the managerial efficiency by introducing modern management system, viz. cost and responsibility centres, performance budgeting, extention of audit from watch-dog to catalyst ensuring cost effectiveness of men, money and materials. Similarly, managerial personnels be trained as per the requirements of new economic policy in order to incalculate the commercial vigour in them.

(2) In view of excessive cost of production, mainly on account of material consumption cost and power and fuel cost, it may be suggested to impart a proper orientation and training to workers to enable them to check the unnecessary wastages of materials, power & fuel and other consumables by applying their best of skills and a fair degree of alertness. Adoption of new technology and power-saving measures may drastically reduce the wastages. Secondly, the excessive employees' cost can be absorbed if production is raised to capacity installed and a better man-power planning is done with an active cooperation

of trade unions, who in turn be persuaded to do so in view of market oriented economy. Moreover, it may also be suggested to identify redundant man -power, if any and appropriately dealing with it through means such as retraining, redeployment, providing handsome termination packages (if agreed) through the National Renewal Fund etc. In fact, the whole exercise should be directed to achieve 'market price-driven-price fixation' rather than 'cost-driven-price-fixation' as has been the case so far.

(3) In view of the State topping the list of SLPEs on the score of accumulated losses, some concrete steps such as revaluation of fixed assets, like urban land and buildings at market price, write off of Government loans considerably and revaluation of shares may be done to ease the financial imbalances.

(4) Last but not the least, a lot of changes and improvement is required in product-mix, their quality and marketing strategies. The age-old engineering SLPEs of the State need to look for new markets and diversify their products. An aggressive marketing on the line of private sector along with cost and quality improvement is a must for SLPEs in the State.

(V) Regarding Social Performance :

(1) In view of attempts of justifying losses on account of social obligations, it may be suggested to clearly spell out the social obligation of each and every SLPE in the State so that their exact social burden can be estimated and accordingly commercial performance can be evaluated in isolation from its mixed performance.

(2) In fact, the Government should make good the losses of a SLPE on account of social performance. Similarly, capital expenditure on social heads be financed by equity capital rather than debt capital as evidenced. In fact, the earning power of capital employed should not be allowed to be impaired on account of social obligations.

(3) Except model employer, the SLPEs in the State lacks a lot of micro and macro level social performances. Being a social creature, SLPEs may invest more for the protection of environment, culture and urban renewals.

(4) Last but not the least, in view of lack of data and information on social performances, it is urgently required that each and every SLPE must add a section in their published accounts & reports, disclosing

social costs and benefits. Similarly, some yard-sticks for quantification and measurement of social performance be developed for justified evaluation.

The above suggestions relate to restructuring of SLPEs in the State in case we find that their closure-costs are higher than their revival costs. In fact, such restructuring is very much required under the 'Stabilisation and Structural Adjustment Programmes' (S & SAP) of Central Government, initiated in July 1991, which focusses more on financial parameters. Privatisation of these SLPEs may not be an easy task as evidenced during 1983, when the State Government wanted to sell 26 industries to private parties. There was a vehement protest against this decision. Moreover, the private parties imposed so many conditions for their purchase that the matter is still hanging in the balance. The other option may be to dismantle the assets of irrepairable sick SLPE and sell them piece by piece. But such measure has not be tried so far in view of complexity involved in it. Even the concept of joint sector can not help to already sick SLPEs of the State. A complete solution does not even lie at the recent exit policy of the Central Government.