

CONCLUDING OBSERVATIONS

## I

### SUMMARY & CONCLUSIONS

Knitting the social role along with the economic role of Indian Public Enterprises, coupled with the absence of proper performance appraisal criteria and lack of defined social and economic goal, has led to a situation where a socially efficient Public Enterprise cannot justify its performance in economic test while an inefficient Public Enterprise gets the scope to hide its inefficiency in the name of social responsibility. This situation has resulted in confusion among the public as to whether it serves any purpose or is it a burden on the public exchequer or just an arm in the hands of the politicians ? Several committees were set up with specific responsibilities, but till to-day a vagueness exists as to the criteria for

evaluating Public Enterprise efficiency. As a result of this, it has become exceedingly difficult to stamp the enterprises which may either be socially efficient or both socially and economically efficient or both economically and socially inefficient.

The basic rationale of the present study has been to highlight this complex situation. This study cannot be said to be complete in its scope or nature. It, however, acts as a pointer to the important role of Public Enterprises towards social obligation. This study has undertaken MICRO and MACRO level review of Public Enterprises' social performance and has come up with the following observations :-

1. Public Enterprises occupy an eminent position in Indian economy and when compared with the private sector companies, Public Enterprises assume a broader social responsibility. Given the background of the non-economic national considerations and normal social obligations assumed by all the business organisations, the possible areas of Public Enterprise social performance are much wider than their counterparts in the private sector.
2. In terms of corporate approach to social goals, the response of the sampled companies shows that Public Enterprises are more committed to Planning, controlling and reviewing social goals than the private sector companies.

In matters of emphasis to major social activities, variations have been witnessed in companies in both the sectors. However, the public sector enterprises have been found to be more consistent in the various activities of consumer affairs and employee affairs while the private sector companies have been found to be more consistent in the various activities of environmental affairs and external relations affairs. More or less uniform variations have been observed in matter of relative emphasis on the urban affairs activities.

3. Phenomenal growth has been witnessed in terms of Public Enterprises' contribution to the Macro social objectives (viz. developing the ancillary sector, promotion of balanced regional development, socio-economic welfare measures, generation of employment, development of the underprivileged).

4. An enterprise level analysis of social performance of the sample Public Enterprises shows varying degrees of social involvement in the different areas of social performance. This resulted in wide variations among the sample Public Enterprises in terms of a social investment and recurring social expenses. It has been observed that the quantum of social investment and recurring social expenses are likely to be influenced by the business investment and number of employees while rate of return does not influence such spendings.

5. Public Enterprises' performance as reflected in the

annual accounts do not depict the true performance. It is only after the adjustment of the respective economies and diseconomies attributable to an individual Public Enterprise, that we may arrive at its true performance. Though removal of social burden (in terms of social investment and social expenses) shows some favourable effect on the rate of return of the Public Enterprises, this has been found to have very negligible effect (say for example 1% or less than 1%) on the rate of return in most cases. Naturally this cannot be an excuse for justifying poor performance of a Public Enterprise in the name of social obligation. But in cases where removal of social burden has been found to have a sizeable effect (say 3% to 5%), an apparently poor economic result may be justified somewhat.

On the other hand, a comparison of return on business investment and return on social investment reveals that it is not always true that a Public Enterprise loses by making a social investment. It has been observed that in case of 60% of the Public Enterprises under review, the return on social investment was higher than the return on business investment.

6. Micro social accounting and social auditing help assessing social efficiency of an enterprise. Currently only very few (4 out of 25 sample Public Enterprises) are

experimenting with the Abt. Associates model of social audit. Moreover, the current status of social performance measurement and external reporting are found to be of very poor standard in the sampled Public Enterprises.

## II

### Suggestions

There are several considerations - both economic and noneconomic behind the creation of Public Enterprises in India. But for quite sometime the performance of the Public Enterprises has come under serious scrutiny and two general observations have been made, that

— Public Enterprises are necessary for the all-round development of the economy and that privatisation is not the best solution;

— Likewise, Public Enterprises should not become a burden on the public-exchequer.

In fact, people have lost their faiths on the Public Enterprises. Though there are several reasons for the uneconomic/poor performance of the Public Enterprises, but lack of concerted efforts to develop alternative criteria (other than profitability) to measure the efficiency of the

Public Enterprises has contributed to a large extent to the loss of public faith, dillution of managerial accountability, continuance of in-efficient units in the name of social purpose and so on.

In order to resolve this complex situation, social obligation of each and every Public Enterprise should be clearly spelt out so that exact social burden of a Public Enterprise can be estimated and accordingly commercial performance of a Public Enterprise can be evaluated in isolation from its mixed performance. . But estimation of true social burden is not an easy task which will require proper planning of social goals, control and appraisal of social performance at the enterprise level. In addition to this, a social performance information system should<sup>also</sup> be developed.

The present exercise comes up with certain specific proposals for monitoring social obligation and performance of the Public Enterprises and thus spells how the social goals be planned, controlled and appraised. It also suggests the informations need to be generated enterprise-wise in order to assess the true social performance of a Public Enterprise.

Step-1 : Classification of Enterprises according to their specific objectives.

At the very beginning a clear demarcation should be made between the enterprises in view of their specific objectives behind their creation. For this purpose all the Public Enterprises may be classified into three broad categories.

Category-I may include Public Enterprises which are to run strictly on commercial considerations.

Category-II may include Public Enterprises which are to run strictly on social considerations.

Category-III may include Public Enterprises which are to run on both economic and social considerations.

The first category of enterprises will be adjudged strictly on the basis of economic indicators and as such this category of Public Enterprises do not pose any obstacle in efficiency measurement with traditional profit criteria<sup>1</sup>. This category of Public Enterprises can also be compared with their counterparts in the private sector.

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1. But the Public Enterprise profits as shown by the financial accounts do not depict the true results. It is only after suitable adjustments of the economies and diseconomies attributable to them, we arrive at the correct 'profit' figure. Hence, all such positive and negative factors which increase/decrease the profit of Public Enterprise must be taken into account.

Enterprises belonging to the 2nd and 3rd category need serious attention in assessing efficiency. Though category -II enterprises may be evaluated on the basis of their social performances such as targets achieved etc., but in case of enterprises belonging to the 3rd category, social burden should be segregated from the economic performance and their social and economic performance will have to be evaluated severally. Thus an estimation of true social burden is a vital factor and which is a complex exercise.

Such exercise, in order to be effective, will require developing a planning, controlling and appraisal system concerning social responsibility and performance.

Step-2 : Social Goals planning, control and appraisal

First, a system of social responsibility planning process may be developed. Such social plans may be prepared annually like other corporate plans (may be through incorporating social goals into annual planning process or preparing a separate social action plan). Social planning shall include the possible social action programs that an enterprise shall undertake within that particular year (to which the plan belongs) along with their financial implications. Social plans may be chalked out at the enterprise level in consultation with the controlling ministry and other governmental

agencies. In this context one point must receive due attention that imposition of social responsibility on a Public Enterprise must be through formal channel (viz. Controlling Ministry, Bureau of Public Enterprises, other Governmental agencies etc.). In fine, it is to be made clear before the commencement of a particular financial year - what the enterprise is going to do in its social front ? How much will it spend on its social activities ? The social responsibility/performance plan may be like the Format I.

Format - I

Proforma Social Responsibility/Performance Plan

Planned Social Activities	Source/s of Imposition	Estimated Expenditure (Activity-wise)		Compensation / Funding Agency
		Capital	Recurring	
1. Consumer Affairs _____ _____	Formal legislation/ Voluntary/ Controlling Ministry/B.P.E. Other agencies	_____	_____	Self/ Government subsidy/ Grants/ Other agencies
2. Employee Affairs _____ _____		_____	_____	
3. Urban A Affairs _____ _____		_____	_____	
4. Environmental Affairs _____ _____		_____	_____	
5. External Relations Affairs _____ _____		_____	_____	

This will help making the non-commercial objectives of the Public Enterprises transparent resulting in computation of their effect on the commercial performance.

Secondly, proper control over the implementation of the social plans should be exerted. Such control may be exerted through :

- i) reporting social performance to internal users of social performance information . Such users may be the Internal Management Committees, Board of Directors, Controlling Ministry etc. ; and
- ii) through reviewing social performance periodically (e.g. monthly, quarterly, semi-annually or annually).

Thirdly, effort should be made to measure social performance of the enterprises with any of the different approaches to measure social performance (viz. Describing social programs, measuring degree of social goal achievement, preparing social audits, measuring return on social investment). Social audit can be made compulsory for Public Enterprises which will help untieing the problem of spotting the socially efficient/

in-efficient enterprises. However, this demand must also come from different quarters like professional bodies, general public and also from the government itself.

For monitoring social performance/obligation of the Public Enterprises, one effective step may be to set up a separate suitable machinery/agency with specific responsibility of managing Public Enterprise social performance.

### Step-3 : Social Performance Information System

External disclosures of social performance (through annual reports, newspaper, magazines etc.) is the way through which a company reaches its stakeholders with its social activities. Studies show that standard of such external social reporting in Indian Public Enterprises is not upto the mark. Only a few Public Enterprises voluntarily disclose some social performance information, most of them are descriptive in type and quantitative informations are seldom met. Moreover, the present practice of disclosing expenditures on social overheads (in response to Bureau of Public Enterprises' circular<sup>2</sup>) is not very exhaustive and does not give a clear picture of the social burden of the Public Enterprises (in terms of Social Investment and Recurring social expenses). Absence of an exhaustive and standard format for providing social information stands in the way of estimating the social investment and recurring expenditures on social performance

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2. Circular No. OM.NO. BPE 1(17) Adv.(f)/69 dated 5.3.1969.

and thereby making the appraisal of social efficiency of the Public Enterprise more difficult. Hence a standard format for disclosing social investment and recurring expenditures on social performance like Formats - II and III may be used.

Format - II

Social Investment

Social Investment	Social Activities	I	II	III	IV	V	Total Social Investment
	Opening Balance	...	...	...	...	...	...
	(+) Addition during the year	...	...	...	...	...	...
	(=) Total Investment	...	...	...	...	...	...
	(-) Depreciation for the year	...	...	...	...	...	...
	(=) Net Social Investment on various Social Activities	...	...	...	...	...	...
	TOTAL						

Format - III

Recurring Expenditures on Social Activities

Social Activities Expenditures	I	II	III	IV	V	Total Recurri- ng Soci- al Expe- nditures
Total Expenditures during the year	...	...	...	...	...	...
(-) Recoveries/Receipts/Returns (if any)	...	...	...	...	...	...
(+) Any charge on Social Investment	...	...	...	...	...	...
(=) Net Recurring Expenditures on different social activities	...	...	...	...	...	...
TOTAL						

Moreover certain Social Performance Ratios can also be calculated (as outlined in Format - IV) which will indicate the share of social investment in the total investment of the enterprise; how much of the total recurring expenditures of the enterprise is spent on social activities; what shares of the gross turnover or net profit goes to the social front; what is the social expenses in relation to employee strength in the particular enterprise. These ratios will not only help in appraising the social efficiency of a particular Public Enterprise ; but will also facilitate inter-enterprise comparison of social performance .

Format-IV

Social Performance Ratios

	(All figures are in ratios)
(i) Total Social Investment to Total Investment	...
(ii) Social Investment to Total Employees (Social Investment per Employee)	...
(iii) Net Recurring Expenditures on Social Overheads to Total Recurring Expenditures	...
(iv) Net Recurring Expenditures on Social Overheads to Gross Turnover	...
(v) Net Recurring Expenditures on Social Overheads to Net Profit	...
(vi) Net Recurring Expenditures on Social Overheads to Total Employees (Net Recurring social expenditures per employee)	...

III

Draft White Paper and Public Enterprises Social Obligations

The draft White Paper<sup>3</sup> on public sector enterprises is before the cabinet and is expected to be placed before the

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3. Based on the publication in 'The Statesman', December 5, 1988.

Parliament after cabinet approval, though the original draft, prepared under the leadership of V. Krishnamurthy, SAIL's chief, is believed to have been revised four times already<sup>4</sup>.

The Paper notes that performance in the profitability of Public Enterprises has been disappointing. The Govt. feels that financial profitability (other than in exceptional cases) is both relevant and important and ought to be one of the key yardsticks of public sector performance evaluation.

As regards the social/non-commercial obligation of Public Enterprises the paper points out that "Public Sector Enterprises would have a multiplicity of goals and objectives which would include non-commercial objectives. The latter should be made transparent as far as possible, so that the extent to which they limit ability to generate profit is clearly quantifiable". The paper also says that the Government should compensate the enterprise for the extra cost involved in non-commercial obligations, but even if this cannot always be done, it will help to make explicit the impact of such obligations on profitability.

Though the draft White Paper calls for the transparency of non-commercial obligations; but the paper is silent as to how they will be made transparent or who will be responsible for such exercise - the enterprise itself, the Controlling

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4. See, Anoop Saxena, 'Blacking out the White Paper', Business India, (December 12 to 25, 1988), pp.125-129.

Ministry or the Bureau of Public Enterprises or else.

Though after a long time the Government felt the need to spell out non-commercial obligations of public sector enterprises, any concrete step is still invisible. Along with spelling out social/non-commercial obligations what is more important is the Public Enterprise social performance information. Incomplete social performance information makes the computation of exact social burden impossible which further results in inappropriate calculation of the impact of social commitment on the Public Enterprise commercial profitability. The proposed paper does not call for such an indepth analysis of Public Enterprise social obligation / performance.

#### IV

#### SUMMING - UP

This exercise thus comes up with the following specific suggestions : -

- Installation of proper planning, control and appraisal system of social performance of the Public Enterprises.
- Evolving a proper 'Public Enterprise social Performance Information System.'
- Establishment of a suitable machinery/agency for managing social obligation/performance of Public Enterprises.

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