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INTRODUCTION

## I

### **PUBLIC ENTERPRISES IN INDIA**

Soon after Independence, the most urgent and difficult problem before the Government of India was curing the evils of arrested development by securing growth at a fast rate for which the building up of infrastructure was a necessary precondition. With the above objective, the Government of India laid down its first Industrial Policy Resolution in April, 1948. The Resolution called for a dynamic national policy directed to a continuous increase in production by all possible means, together with measures to secure equitable distribution of the output. For implementing this policy, the Resolution emphasised the need for the State to play an active role in the development of industries in the country. The Resolution made it clear that mere passive acquisition and operation of existing units would not be sufficient;

aggregate economic expansion would be best promoted by the State through enlargement of the present facilities and by establishing new units of production in such areas where it was not currently operating<sup>1</sup>.

Thus, both the public and the private sectors were given complementary roles in promoting industrial development in the country. The manufacture of arms and ammunitions, production and control of atomic energy, and the ownership and management of railway transport was to be the sole responsibility of the Government. The responsibility for setting up new undertakings was also reserved to the State in some basic industries (viz, coal, iron & steel, aircraft manufacture, ship building, manufacture of telephone, telegraph and wireless apparatus (excluding radio receiving sets) and mineral oils; while the rest of the areas were left to the initiative of private business enterprises.

Subsequently the Directive Principles of State Policy, incorporated in the Constitution of India, that came into working in January, 1950, indicated the socio-economic goals of the state, in view of which planning for national development assumed special significance and accordingly a Planning Commission was set up in March, 1950, and the nation's First Five Year Plan got the final shape in December, 1952. When the First Plan was under implementation, the Government accepted the pursuit of a socialistic pattern of

society as the principal objective of our social and economic policy. With the completion of the First Five Year Plan, it became transparent that there was urgent need for rapid economic development particularly through the expansion of heavy industries. In view of these changes and needs the Government reformulated its Industrial Policy in April 1956.

This Industrial Policy Resolution referred to the Directive Principles of State Policy, the Socialist Pattern of Society along with the need for a planned and faster development, and stated that "all industries of basic and strategic importance or in the nature of public utility services, should be in the public sector". Other industries which were essential and required huge investment which the State could only provide were also to be in the public sector. Therefore the Government was "to assume direct responsibility for the future development of industries over a wider area".

This Resolution classified industries into three categories. The first category included seventeen industries, including the nine industries covered in the 1948 resolution, the future development of which was to be the exclusive responsibility of the State. Industries in the second category containing twelve industries were to be progressively state-owned and the State was to take the initiative in

establishing new undertakings, but private enterprise was also expected to supplement the efforts of the state. The third category comprised all the remaining industries which were left generally to the initiative and enterprise of the private sector, but "it will be open to the state to start any industry even in this category".

The Second Plan, which was finalised immediately after the Resolution of April, 1956, pointed out that the two sectors would have "to function in Unison" and were to be "viewed as parts of a single mechanism" and the Plan could "go through only on the basis of simultaneous and balanced development in the two sectors"<sup>2</sup>. The Plan stressed the inter-dependence of the two sectors and referred to investments in the public sector in areas such as irrigation, power and transport which will help increasing the production-potential of the private sector<sup>3</sup>.

By the middle of 1961, when the Third Plan was approved, the controversy as to the role of the two sectors seemed to have been settled. It was understood that the public sector was to grow relatively as well as absolutely, and the private sector had to develop in terms of the government policies and was not to be obstructed in contributing to the growth of the economy<sup>4</sup>. According to this Plan, an important purpose to be served by the public sector was to prevent concentration of economic power and growth of monopolistic tendencies.

Moreover the public sector was also to be used "to determine the character and functioning of the economy as a whole"<sup>5</sup>.

The Fourth Five Year Plan which began in 1969 confirmed the role of the private sector regarding its function within the framework of national planning with due consideration of the obligations towards the community as a whole. Thus the emphasis on using the private sector in the public interest continued in the Plan. No assessment, however, was attempted as to what extent this objective had been achieved by it<sup>6</sup>.

The Plan envisaged the emergence of public sector "as the dominant and effective area of the economy" so that it might "take charge more and more of the commanding heights in the production and distribution of basic and consumer goods"<sup>7</sup>.

The Fifth and the 1978-83 Plan had no significant pronouncements of policy regarding the Public Enterprises. However, the latter Plan envisaged Public Enterprises to administer the distribution of essential commodities and infrastructural facilities for low-income people.

The Industrial Policy announced on 23rd December, 1977, outlined the importance of Public Enterprise as a means of socialising the means of production in key areas. It was also expected that Public Enterprise would act as a counter-vailing force to the growth of large houses and large scale

enterprises in the private sector. The new Policy also envisaged a broader role for Public Enterprise in several fields. Moreover it was expected that the government would operate Public Enterprises efficiently so that profits can be generated and an adequate return on investments made in them is ensured.

The Industrial Policy Statement announced on 23rd July, 1980, fully endorsed the 1956 Resolution, which "reflects the value system of our country and has shown conclusively the merit of constructive flexibility". The statement referred to the "gigantic task" of restoring "faith in the public sector" and of evolving "effective operational systems of management" in Public Enterprise. The statement made it clear that the public sector should be identified as the people's sector and not as nobody's sector as was treated by the previous government. The statement did not identify any area for further extension of the Public sector, but it confirmed that the public sector would continue to play an increasingly important role. It, however, laid greater emphasis on the need for improving the management of Public Enterprises<sup>and</sup> felt the need to launch a drive to revive their efficiency. The statement contained that private sector firms would be allowed to develop in consonance with the objectives of the national plans and policies, but the growth of monopolistic tendencies or concentration of economic power would be restricted.

The present government, which came to power in 1984, has a marked thrust towards liberalisation. Some fields like telecommunication, oil exploration, oil refining and civil aviation, which were exclusively reserved for Public Enterprises have also been opened to the private sector. The government has not yet come out with any formal policy statement, but it has been made clear by the Prime Minister that there is no change in policy. The Prime Minister confirmed that "there was no question of reducing the role of the public sector"<sup>8</sup>. He said that "the public sector would be given the utmost importance during the Seventh Plan period than ever before". The Plan Document, however, does not support this enthusiasm about the public sector<sup>9</sup>.

The Seventh Plan document views that the emphasis "should be on consolidation, improvement and modernisation, rather than on large expansion of capacity except when it is imperative"<sup>10</sup>. The Plan also states, that "the growth of state public enterprises will be moderated so that attention can be devoted to their consolidation and improvement of performance to enable them to contribute to state finance rather than be a drain on the state exchequer"<sup>11</sup>. Thus the Seventh Plan does not envisage Public Enterprise expansion except when it becomes imperative.

Thus the implementation of the industrial policies over the successive Five Year Plans has been witnessed in a

phenomenal growth of the public sector in India in terms of coverage, investment and size (Annexures I, II, III & IV). In India the public sector today covers wide-ranging activities. It controls 100% of the national production in respect of petroleum, lignite, copper and lead while 97.6% of the national production of coal comes from public sector and in the case of steel it is nearly 75%. Nearly 80% of the zinc<sup>and</sup> about 47% of nitrogenous fertilizers are produced in the public sector. In addition, public sector activity covers a number of other areas such as heavy engineering, medium and light engineering, chemicals and pharmaceuticals, consumer goods, trading and marketing services, tourist services, financial services, development of small industries, etc. Moreover it has also come to the rescue of a number of sick enterprises taken over from the private sector mainly to protect employment<sup>12</sup>.

'Now, the public sector has reached a position of pre-eminence in the industrial field that is perhaps beyond challenge or change. Figures just released by the Government show that at the end of March, 1987, the public sector accounted for no less than 76.83% of the total paid-up share capital of all companies, compared to just 6.74% thirty years earlier. Government-owned companies moved ahead of private ones in the late 1960's in terms of total share capital and have recorded the fastest growth in share capital over the

past decade. As a result of this accelerating trend, the public sector's share capital last year totalled upto Rs. 31,124 crores, compared to no more than Rs. 9383 crore for the private sector (the figure thirty years earlier for the private sector was Rs. 1005 crores)<sup>13</sup>.

Thus, the interest of a study in the area of Public Enterprises can be well justified from the view point of their enormous magnitude, vast coverage and significance in Indian Economy.

## II

### THEORETICAL FRAMEWORK

#### CORPORATE SOCIAL RESPONSIBILITY : THE CHALLENGE AND RESPONSE

Now-a-days social obligation of business is beyond any challenge. The traditional view of the role of business, to create profits only, has undergone a metamorphosis<sup>14</sup> and the management to-day has come to acknowledge that profit and humanism cannot be mutually exclusive. The changing needs of investors, customers, employees and the community have become important factors in managerial decision making process<sup>15</sup>. Now, society expects business to assume social responsibility since business interacts with much of society and they are seen as creatures of society. Such responsibility is now considered as moral obligation on the part of

business corporations<sup>16</sup>.

Moreover, the extent of social obligation of business is gradually changing along with changes in the social environment of business. This happens because of the changes that take place in the two main sources of social obligation of business :-

i) changes in the public demands and pressures which is a function of growing social awareness of the public due to blooming of education and knowledge; and

ii) changes in the legal environment of business due to enactment of different laws protecting the interests of the various constituents of business environment ( such as investors, employees, customers, environment and the community at large ).

Thus we have reached a stage in corporate ethics where we cannot deny the question of social obligation of business or consider the social demands on the business lightly<sup>17</sup>.

In India, the question of social responsibilities of business became the subject-matter of Conferences and Seminars held at Delhi, Calcutta and Bombay in the early 60's. An international seminar on social responsibilities of business was held at the India International Centre, New Delhi, from 15th to 21st March, 1965. The seminar concluded with defining social responsibilities of business as

"responsibilities to customers, workers, shareholders, and the community".

Later on, the Calcutta Seminar on this issue of Social Obligations of Business was held on 25th to 27th March, 1966. The seminar discussed the main features of social responsibilities of modern 'business', and stressed the need for a special expert study of this problem to find the norms, standards and nature of social responsibilities of Business. Accordingly, a special study group was set up which identified the possible areas of social responsibility of business in India<sup>18</sup>.

The High Powered Expert Committee on the Companies and MRTP Acts, popularly known as Sachar Committee in its report submitted in August, 1978, also dealt with the question of social responsibilities of companies<sup>19</sup>. The committee considered that the corporate sector is at the very base of the national economy. A large public amount is involved and many lakhs of men are employed in the corporate sector of our economy. Hence, the functioning of the corporate sector is of greater concern to the society. The committee made it clear that the companies must accept its obligation to be socially responsible and to work for the larger benefit of the community because the well-being of corporate sector has vital effect on the employment, and economy of the community and the health of the society.

The committee also stressed the need for corporate disclosure of social performances so that an openness exists in corporate affairs<sup>20</sup>.

In India the formal demands placed through different legislations on the business to engage in social activities arise from the need for protecting the interests of the major constituents of its environment. Table : I lists most of those legislations which relate to consumers' protection, protection of investors' interest, employee welfare and social security, environmental protection and improvements, thus constituting the socio-legal environment of business in India.

#### Areas of Corporate Social Performance

In the absence of clear definition of corporate social responsibility by legislation or so, individual companies must define for themselves the nature and extent of their social responsibility. In doing so the companies take into account the legislation on the one hand and public opinion and pressure on the other. Thus corporate social responsibility may be broadly or narrowly defined by individual companies and thus they have their own choice as to the standard of corporate social responsibility which they may be willing to accept subject to some of the legal restrictions<sup>21</sup>. Social activities of a company, thus, may be either

Table : I

Laws relating to Consumers' Protection	Laws relating to Employee Welfare and Social Security	Laws relating to Improvement and Protection of Environment	Laws relating to protection interest of investors
<p>a. Agricultural Product Grading and Marketing Act, 1937.</p> <p>b. Indian Standard Institution Certificate Act, 1952.</p> <p>c. Prevention of Food Adulteration Act, 1954.</p> <p>d. The Standard of Weights and Measures Act, 1956.</p> <p>e. Trade Marks and Merchandise Marks Act, 1958.</p> <p>f. The Monopolistic and Restrictive Trade Practices Act, 1969.</p> <p>g. Prevention of Blackmarketing and Maintenance of supplies of Essential Commodities Act, 1980.</p> <p>h. The Consumer Protection Act, 1986.</p>	<p>a. Pensions Act, 1871.</p> <p>b. Workmen's Compensation Act, 1923.</p> <p>c. Trade Unions Act, 1926.</p> <p>d. Payment of Wages Act, 1936.</p> <p>e. Employment of Childrens Act, 1938.</p> <p>f. The Mines Maternity Benefit Act, 1941/1961.</p> <p>g. Industrial Employment (standing orders) Act, 1946.</p> <p>h. Industrial Disputes Act, 1947.</p> <p>i. Factories Act, 1948.</p> <p>j. Minimum Wages Act, 1948.</p> <p>k. Employees' State Insurance Act, 1948.</p> <p>l. The Coal Mines Provident Fund, Family Pension and Bonus Scheme, 1948.</p> <p>m. Employees' Provident Funds and Miscellaneous Provisions Act, 1952.</p> <p>n. Personal Injuries Compensation Insurance Act, 1963.</p> <p>o. Payment of Bonus Act, 1965.</p> <p>p. Payment of Gratuity Act, 1972.</p> <p>q. Plantation Labour Act, 1976.</p> <p>r. Equal Remuneration Act, 1976.</p> <p>s. Shops and Establishments Acts of Various States.</p>	<p>a. Indian Forests Act, 1927.</p> <p>b. The Water (Prevention and Control of Pollution) Act, 1974.</p> <p>c. The Air (Prevention and Control of Pollution) Act, 1981.</p> <p>d. The Environment (Protection) Act, 1986.</p>	<p>a. Companies Act, 1956.</p> <p>b. Securities Contracts (Regulation) Act, 1956.</p> <p>c. Monopolistic and Restrictive Trade Practices Act, 1969.</p> <p>d. Securities Control (Regulation) (Amendment) Act, 1985.</p>

This list may not be an exhaustive list covering all the laws in force.

voluntarily undertaken by it or in meeting legal requirements or a composition of both.

The social activities, thus may extend beyond meeting the letter of the law, the pressures of competition or the requirements of contracts<sup>22</sup> as it reflects the philosophy of the company toward the society to which it belongs. Hence, areas of corporate social performance have no horizon of their own except a few professional and academic exercise to define some possible general areas of such performances.

The National Association of Accountants Committee on Accounting for Corporate Social Performance, while developing systems of accounting for corporate social performance identified four major areas of social performances. The committee also provided a list of items under each of the four major areas identifying typical examples of social performance. The list comprises of the following.

1. Community Involvement - Community Involvement includes those socially oriented activities which tend primarily to benefit the general public. Those activities are -

a. Spreading education and literacy by supporting educational institutions, improving the cultural level of the community through various recreational and cultural programmes and stepping towards community welfare.

b. solving the urban transportation problems, providing transport facilities to employees.

c. providing service in the field of rural health and medicine.

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- d. improving the standards of dwellings and providing other housing facilities to employees.
- e. preventing the ill effects of unplanned urbanisation.
- f. activities in the field of family welfare.
- g. providing relief to the poor, the distressed and the destitute.
- h. activities towards rural upliftment including adoption of villages.
- i. contributing towards the preservation of ecological balance in any manner including wild life preservation.
- j. service to ancillary industries.

2. Human Resources - Human resource is an internal area. It covers that social performance which is directed to the well-being of employees. The areas of such performance are -

- a. providing equal job opportunities for all persons and providing employment to the physically, financially and socially handicapped.
- b. arranging training programmes for employees so as to increase their skills, job satisfaction and earning potential promotion facilities.
- c. maintaining a good and cordial relation between employers and employees.
- d. providing pleasant and healthy working condition.
- e. keeping proper safety measures for risky operations for the workers.
- f. providing incentives such as pension, bonus, gratuity, etc. to the employees.
- g. keeping keen eyes to employee welfare in different aspects - e.g. schools for their children, aid for education, medical facilities, etc.
- h. executive manpower and management development.

3. Physical Resources And Environmental Contributions -

This includes those corporate activities that are directed towards eliminating or preventing environmental deterioration such as -

- a. keeping the air clean and free from pollution.
- b. conservation of existing energy resources and the development of new energy resources, etc.

4. Product Or Service Contribution - These activities deal with the relations with the customers or effects on society of the products/services such as -

- a. responsiveness to consumer complaints regarding the quality of the product or service and improving the same accordingly.
- b. conducting marketing research in innovating the products, design, quality, etc.
- c. maintenance of better consumer relations, etc.

(Source : Management Accounting (February 1974) : 41)  
quoted in, Ahmed Belkacoui, Socio Economic  
Accounting (England : Quorum Books, 1984)

Though the above list may be a general prescription of possible areas of social involvement for any business enterprise, however they may vary from enterprise to enterprise; industry to industry; sector to sector, depending upon their individual interpretation and restrictions and demands placed upon them.

Social Obligation of Public Enterprises In India

An intersectoral comparison reveals that, unfortunately, the social responsibility expected of private enterprise

has been more or less conspicuous by its absence. For example, no private enterprise is willing to employ even a small percentage of the socially exploited communities, while all Public Enterprises reserve 22½% posts for these communities. The basic approach of majority of the private sector firms has been not to take into account a social obligation unless specifically imposed by law, rather efforts are made to find loopholes or to side-track or minimise the effects of such obligations<sup>23</sup>.

In Public Enterprise, however, social considerations should not be considered an imposition, but are built into the system and the extent of such social obligations differs from industry to industry and from enterprise to enterprise as well<sup>24</sup>.

The social obligations are rarely stated by the legislature. Generally the government expresses its desire or opinion about an obligation which Public Enterprises are expected to take up on their own<sup>25</sup>, consistent with their commercial obligations<sup>26</sup>. The only formal binding on the Public Enterprises is in regard to the employment of SC, ST, ex-servicemen and dependents of those killed in action. But the general practice is that the government prefers to be informal. However, its wishes or desires expressed through circulars and guidelines are observed by Public Enterprises almost like directives<sup>27</sup>.

In case of Public Enterprises, the areas of social obligation are much wider as compared to the private sector enterprises because of the socio economic objectives of the public sector enterprises in matters like development of back-ward regions, development of small-scale and ancillary sectors , provision of public utility services at subsidised rates, selling basic inputs at lower prices, providing medical, educational and housing facilities to employees, etc. Thus social obligation of Public Enterprises in India can be viewed from two angles :-

First, the social obligation imposed by the different national plans, which is borne by all the Public Enterprises as whole (i.e. Macro level social obligation);

Second, the social obligation imposed by the different segments of the society having their respective interests in the enterprise which is generally similar to those borne by the private sector enterprises (i.e. Micro level social obligation).

Thus the social responsibility of a Public Enterprise is two fold :

- Responsibility as Public Enterprise; and
- Responsibility as a business organisation like that of private sector enterprises.

The former category includes Public Enterprises' contribution<sup>in</sup> developing the ancillary sector, promoting balanced regional development, averting unemployment, development of backward communities and other categories of persons, while the latter category includes Public Enterprises' performance in areas like Consumerism, Community Involvement, Human Resources, Environmental Protection, etc. (Fig.1).

### III

## **DIRECTIONS AND SIGNIFICANCE OF THE PRESENT STUDY**

Unlike private sector enterprises, performance evaluation of Public Enterprise is much more complicated because of different factors arising due to the complexity of the environment in which Public Enterprise operates — intermingling of social and economic objectives being one such major factor. This is so because of lack of clarity of the objectives and obligations of Public Enterprises<sup>28</sup>

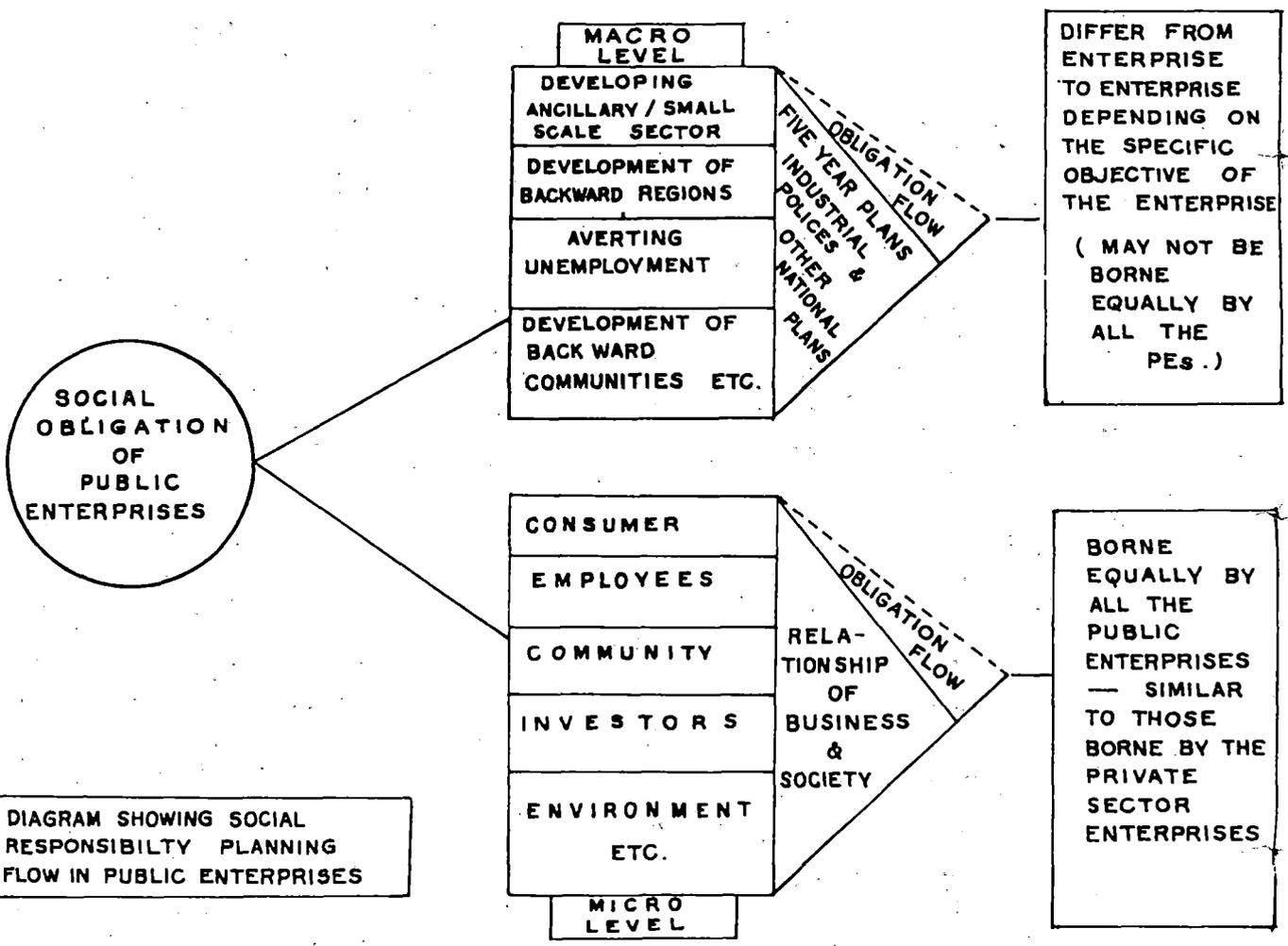


Fig. 1 :

coupled with the fact that a broad understanding about the extent and quantum of social obligations does not exist in India as it exists in U.K.<sup>29</sup>.

This problem calls for an assessment of social efficiency of Public Enterprises thereby helping proper assessment of overall efficiency of Public Enterprises because social obligations of Public Enterprises should not eclipse their economic viability, which in itself is an important social purpose. An unequivocal and clear statement of social responsibilities would avoid any possibility of Public Enterprise manager making "social achievements" an alibi for unsatisfactory economic and financial performance. The dimensions of social obligation of Public Enterprises (as shown in Fig.1) which have burdened them in different ways affected the earnings of the enterprise. Hence it is necessary to evaluate social performances of the Public Enterprises and examine the effect of such performance on the profitability of the enterprise. This will not only help measurement of social performances of Public Enterprises, but will also help proper and overall efficiency measurement.

The area of social performance assessment of the Public Enterprises has not received the due academic attention in India and the present exercise is an humble attempt in this direction. The significance of an attempt

to assess the Public Enterprise performance from the view point of achieving social goals is well justified in the sense that it will help identifying the really socially efficient Public Enterprises thus leaving no scope for hiding the commercial inefficiency under the veil of social obligation.

#### IV

### SURVEY OF EXISTING LITERATURE

While we find that there is a plethora of literature on different aspects of Public Enterprises, there is hardly any detailed study referring to social efficiency of public enterprises in the Indian context. Several studies are available in the area of Corporate Social Accounting and Social Responsibility of business, mostly with reference to the U.K., the USA, and other countries. These studies do not, however, refer to the public enterprises. However the following Indian and foreign studies (relating to Public Enterprise social responsibility) are important ones, so far as the present study is concerned.

#### (I) Foreign Studies

Shepherd's study<sup>30</sup> deals with the theoretical aspect of Public Enterprise social obligation. He considered how

to fit social elements into the performance of commercial operations. He said that a public firm has some degree and form of social elements and a virtual infinity of social elements can be defined, and public firms can serve many of them. His study further deals with the two polar concepts for reconciling the social and commercial objectives of public firms. One separates the commercial and social elements for explicit treatment, while the other does not.

Livingstone and Gunn<sup>31</sup> offer a detailed discussion on the public sector accounting (micro social accounting), while Pleskovic and Trevino<sup>32</sup> show an application of a social accounting matrix (SAM) to Mexico with special focus on the disaggregation of data and accounts for the public sector and public enterprises in particular in the year 1976 (macro social accounting).

Lipson's<sup>33</sup> attempt relates to determination of the extent of the pressure for corporate social responsibility which affected corporate planning process in the U.S. firms. He found that the large U.S. industrial firms were already on the learning curve and were expanding their search for social performances measurement.

Buehler and Shetty's<sup>34</sup> empirical work relates to managerial responses to social demands in different corporate affairs groups. They observed varying degrees of

involvement in the three groups of corporate social action programs.

(II) Indian Studies

Professor Laxmi Narain<sup>35</sup> showed with a small sample of 10 Central Government public enterprises that if township burden is removed, in most cases it had a favourable effect on the rate of return on the capital invested.

Viswanadham and Subramanyam<sup>36</sup> analysed the influence of social responsibility on the performance of public enterprises and the problems involved therein. Their study was confined to the case study of a state-owned enterprise - the Andhra Pradesh State Road Transport Corporation (APSRTC). Their study is divided into two sections. The first section relates to a conceptual outline and the second relates to a study of the impact of social responsibility on the performance of the APSRTC. They concluded that certain social obligations were thrust on the Corporation consequent upon which the profit earning ability of the Corporation got further impaired. They suggested the 'possible alternatives' so that the burden of ever-losing city operations can be either reduced or completely eliminated. They opined that there is nothing basically wrong in expecting the Public Enterprises to undertake social obligations. But at the same time, the ability of the Public Enterprise to keep the earning power of the

capital employed intact should not be impaired. The Government, when it imposes social objectives, should be prepared to come forward and make good the loss so that the original purpose for which the Public Enterprise had been established should not be lost sight of.

The present author's study<sup>37</sup> of 100 Central govt. Public Enterprises presents an empirical analysis of the quality of social disclosure covering the period of 1977-78. The study highlighted the social reporting practices and tested the possible relationship between the quality of corporate social disclosure and the corporate characteristics like size of investment, rate of return, gross turnover, age of undertakings size of audit firm, and nature of activities.

Singh and Ahuja<sup>38</sup> also made a similar effort with a sample of 42 annual reports. However their study tested the organisational correlates like age, total assets, net sales, rate of return, profitability and type of industry. They also examined the extent of social responsibility disclosure in the corporate annual reports.

A recent effort by the present author<sup>39</sup> concerning pollution disclosure in India reveals that this area of corporate reporting has not gained much importance. Most of the companies' annual reports lack detailed information

as to name of pollutants, abatement techniques, and their financial implications.

V

## RESEARCH QUESTIONS

The present study seeks to find answers to the following questions :-

1. What is the extent of social obligation of the Indian Public Enterprises ?
2. Whether the Indian Public Enterprises incorporate social goals into their annual planning processes ?
3. Whether there is difference as to the emphasis on major social action programs between the Public Sector and the Private Sector Enterprises ?
4. How far have the Indian Public Enterprises as a whole achieved their social goals in terms of developing the ancillary sector, developing the backward regions, averting unemployment, developing backward communities, etc. ?
5. How far the Indian Public Enterprises stand individually in meeting their social responsibilities to the employees, consumers, community, environment, etc. ?

6. What is the impact of broader social burden on the commercial performance of the enterprise ?

7. Do the Public Enterprises adopt any social performance measurement technique, and if so, what is the recent trend ?

## VI

### OBJECTIVES OF THE STUDY

In section III of the Chapter we have tried to highlight the problem of performance evaluation of Public Enterprise. The problem appeared to be complex because of the complexity of the environment in which Public Enterprises operate . The core of this complexity seems to be a fusion of social and economic objectives on the one hand and the lack of clarity of the objectives and obligations of the Public Enterprises *on the other*.

The central objective of the present study is to tackle this problem of performance evaluation by seggregating Public Enterprises social performance from its economic performance and thereby to facilitate more meaningful evaluation both independently of each other as well as in their intricate relationship. However, in our case, the emphasis would be more on social performance evaluation

since this has so far attracted little attention.

Apart from this broad objective, our area of emphasis requires a systematic treatment of different aspects of Public Enterprise social performance and hence the following specific objectives may also be identified:-

first, to enquire how the Indian Public Enterprises approach social goals in terms of planning, control and appraisal of social obligation/performance and analyse their involvement in major social action programs;

second, to review their social performances (both at macro level and micro level);

third, to analyse the impact of social commitment of the Public Enterprises on their commercial/economic performance;

fourth, to review the recent trends in social performance measurement and reporting (Micro Social Accounting) in selected Public Enterprises;

fifth, to suggest steps which may help managing social performance of Indian Public Enterprises effectively.

## VII

### METHODOLOGY

Sample :

For the aggregative analysis, the study covers the

Central Government Public Enterprises and for Enterprise level analysis a sample of twenty five Central government Public Enterprises (Annexure : V) have been drawn on the basis of simple random sampling method. For the questionnaire-based survey, the sample constitutes fifty such Public Enterprises drawn at random from the top 100 Public Enterprises (in terms of capital employed). Since we had to modify our sample in specific case, we have outlined the procedures in the relevant chapters.

Period :

While making an aggregative analysis, a time span of ten years (from 1975-76 to 1984-85) has been covered in the study. This will facilitate overviewing of trends in different areas over a decade. On the other hand, while reviewing the impact of social burden, micro social accounting practices of individual Public Enterprises, in a single year; figures for the year 1984-85 have been used. Because, the annual accounts and reports of the sampled Public Enterprises could be obtained for that year only.

Though the period for aggregative analysis could have been extended atleast upto 1986-87, but in order to bring harmony with the Enterprise-level analysis (for which the necessary data for the sample Public Enterprises could not be obtained beyond 1984-85), this study had to restrict its period coverage upto 1984-85 only.

Data Source :

The 'Public Enterprises Survey' Published by the Bureau of Public Enterprises, Ministry of Industry and the annual accounts and reports of the sample Public Enterprises form the principal source of data for this study.

Questionnaire :

A mailed questionnaire has been formulated for conducting survey of the corporate involvement in different social action programs and their attitude to corporate social responsibility in terms of planning, controlling and assessment of social performances. The questionnaire has been developed on the basis of the studies available in this area (viz. Buehler and Shetty, Lipson<sup>40</sup>).

VIII

LIMITATIONS OF THE STUDY

The main limitation of this study is the insufficient information relating to Public Enterprises social performance. Though some information about the MACRO social performances are available, information relating individual Public Enterprises social performance is not

fully available. Disclosure of Expenditure of social overheads in response to Bureau of Public Enterprises circular hardly depict the true social burden of the concerned Public Enterprise. Due to this lacuna it becomes difficult to assess the actual social burden on the Public Enterprise thus limiting the scope for overall efficiency measurement. The untransparent social considerations stands in the way of proper efficiency appraisal.

The Micro level study is based on a sample of 25 Central Govt. Public Enterprises, which may be adequate in terms of number. However, in case of sampling it is the representativeness of the sample that is more crucial than its size. In this respect a stratified random sampling procedure would have been a better technique to opt for in this case. Unfortunately we did not find adequate information to make the stratification possible.

Moreover this area of social performance appraisal has not received the desired attention from the academic researchers in India which has resulted in non-availability of literature particularly relating to Public Enterprise social obligation. This has created a confusion in the mind of the present researcher regarding a definite and disciplined move.

Again, due to non-availability of latest annual accounts and reports, this study could not be up-dated.

Due to the above limitations, the present hypotheses, assumptions, analysis and findings are of course subject to defects, faults which the author might have mistaken or overlooked. Hence this study is subject to sincere scrutiny and criticism.

## NOTES & REFERENCES

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Ibid., p.29.
4. Laxmi Narain, Principles and Practice of Public Enterprise Management (New Delhi : S.Chand & Company, 1988), p.32.
5. The Plan also expected "an expanding public sector, engaged specially in developing basic industries and producing large surpluses for development, will itself be one of the most important factors determining the rate at which the economy can grow". Planning Commission, Third Five Year Plan (New Delhi : Govt. of India, 1961), p.50.
6. Laxmi Narain, op.cit., p.33.

7. Planning Commission, Fourth Five Year Plan (New Delhi : Govt. of India, 1969), p.28.
8. Prime Minister's address to the National Development Council, 1985, Quoted in Laxmi Narain, op.cit., p.34.
9. Ibid., p.35.
10. The Economic Times, 20th December, 1985.
11. Planning Commission, Seventh Five Year Plan (New Delhi : Govt. of India, 1985), p.420.
12. Bureau of Public Enterprises, Public Enterprises Survey - 1984-85 (New Delhi : Ministry of Industry, 1986), Vol.1, p.1.
13. India To-day, May 31, 1988, p.117.
14. H.Simon's theory of 'Satisficing'. See, The New Science of Management Decisions (New York : Harper & Row, 1960).
15. Roger W.T.Gill and Lisa J.Leinbach, 'Corporate Social Responsibility in Hongkong', California Management Review (Vol.XXV, No.2, January 1983), p.107.
16. Ibid., p.108.
17. Ministry of Law, Justice & Company Affairs, Report of The High Powered Expert Committee on Companies & MRTP Acts (New Delhi : Govt. of India, 1978), p.95.
18. "The Study Group suggested the following as the social responsibilities of business for adoption by the business community in India :

- (1) Business must accept responsibility to the society and its various constituents as a trustee for the goods and services that it produces, consumes, saves and re-invests.
- (2) The social responsibilities of business extend beyond the business to the lives of the people and the community and as such they should be endeavouring to (a) play their proper role in civic affairs within the zones of the business; (b) promote amenities and help create better living conditions; (c) help in making people law-abiding and improving legislation and administration in municipal and industrial affairs; and (d) set up socially desirable standards of living themselves, avoiding ostentatious, wasteful and improvident expenditure in weddings, festivities and parties.
- (3) Business owes it to itself as a primary obligation, to give a fair and square deal to its customers and consumers. They should be charged a fair and reasonable price which should be well within their reach. The supply of goods should be of uniform, standard, and of reasonably good quality. The distribution of goods must be so widespread as to be within the reach of the consumer. No business should directly or indirectly indulge in profiteering, hoarding or creating artificial scarcity.
- (4) Business should not mislead the consumer and community by false, misleading and exaggerated advertisements. Obscene advertisements are demoralising and a danger to public morals.

- (5) Business should develop its administration in such a way as to promote a spirit of co-operative endeavour between employers and employees. There should be a sense of participation between the capital on the one hand and labour and skill on the other in their objective towards prosperity and progress.
- (6) Business should endeavour to pay -
- (a) fair and reasonable wages to its labour,
  - (b) fair and reasonable remuneration and salaries to its staff,
  - (c) fair and reasonable return to themselves for their work and capital without creating unseemly disparities and by providing fair and reasonable progress and promotion within the business administration from one level to another.
- (7) Business should develop and adopt a progressive labour policy based on -
- (a) recognition of genuine trade union rights, settlement of disputes and conciliation,
  - (b) participation of the workers in improving production and administration,
  - (c) creating a sense of their belonging to the business, and
  - (d) improving the human qualities of labour by education, training, living-conditions, leisure and amenities.
- (8) The social responsibilities of business include a healthy co-operative inter-business relationship between different businesses and avoidance of such unfair practices as price rigging, undercutting, patronage, unfair canvassing and

and unethical advertisements.

(9) The social responsibilities of business towards the State demand that —

- (i) the businessman will be a law-abiding citizen,
- (ii) he will pay his dues and taxes to the state fully and honestly,
- (iii) he will not corrupt public servants and the democratic processes for his selfish ends,
- (iv) he will not buy political support by money or patronage,
- (v) he will sell his commodities and services without adulteration,
- (vi) he will maintain a fair trade policy and avoid activities leading to restraint of trade".

Source:

P.K.Ghosh and G.K.Kapoor, Business and Society - A Study of Business-Environment Interface (New Delhi : Sultan Chand & Sons, 1985), pp.182-184.

19. The Committee observed as follows :

1. In the development of corporate ethics, a stage has been reached where the question of social responsibility of business to the community can no longer be scoffed at. The plea of the companies that they are performing social purpose in the development of the country can only be judged by the test of social responsiveness shown by them to the needs of the community.

2. Acceptance of the concept of social responsibility must be reflected in the information and disclosure.

that the company makes available for the benefit of various constituents like the shareholders creditors, workers and the community. Openness in corporate affairs is the first principle in securing responsible behaviour.

3. The Sachar Committee appreciated that some of the enlightened business houses in India were showing a recognition of the social responsibility owed by the corporate sector. These business houses did contribute to solve problems like unemployment, rural development, environmental protection including conservation of resources, control of pollution and provision for clean drinking water.

4. Accountability of the public sector to the public through Parliament must find its parallel in the private sector in the form of social accountability which, in the Committee's view, is a mere extension of the principle of public disclosure to which a corporation must be subject. Every company, apart from being able to justify itself on the test of economic viability, will have to pass the test of a socially responsible entity.

5. In order to ensure implementation of the concept of social responsibility and dissemination of adequate information in this regard, a provision should be made in the Act that every company, along with directors' report, shall also give a Social Report which will indicate and quantify in as precise and clear terms as possible the various activities relating to the social responsibility aspects which have been carried out by the company in the previous year."(See, Ibid., pp.184-185).

20. Ministry of Law, Justice & Company Affairs, op.cit., p.95.

21. The legal environment of business in India is constituted by the following business laws :-

- (i) Law of Contracts codified in Indian Contract Act, 1872.
- (ii) Companies Act, 1956.
- (iii) MRTP Act, 1969 (Monopolies and Restrictive Trade Practices Act).
- (iv) IDRA (Industrial Development & Regulation Act, 1951).
- (v) FERA (Foreign Exchange Regulation Act, 1973).
- (vi) Factories Act, 1948.
- (vii) Capital Issues (Control) Act, 1947.
- (viii) Import and Export Control Act, 1947.
- (ix) Essential Commodities Act, 1955.
- (x) Taxation Laws.
- (xi) Environmental Laws.
- (xii) Industrial Relations Laws and Employee Welfare and social Security Laws.

(Source : P.K.Ghosh and G.K.Kapoor, op.cit., p.26).

22. Ralph W.Estes, Corporate Social Accounting (New York : John Wiley & Sons, 1976), p.17.

23. Laxmi Narain, op.cit., p.37.

24. Ibid., p.218.

25. See, for example, P.R.Das Munshi's letter to SAIL's chief, published in The Statesman dated May 29, 1988

26. "An important example of a statutory social responsibility seems to be that of the DVC, where the corporation, in addition to irrigation, drainage, flood control and generation and distribution of

of electricity etc. is responsible for promoting public health and general welfare in the Damodar Valley areas. Thus, the corporation administers a large part of its programme as a business enterprise and another part as a social rehabilitation responsibility". See, Laxmi Narain, op.cit., p.219.

27. A limited statutory obligation exists for the air corporations where the Central govt. can "in the national interest" ask them to undertake, not to undertake or discontinue a service. If, as a result, the corporations suffer loss, the government will reimburse them provided "the corporation has suffered an overall loss in respect of its operations". Parliament thus expects a Public Enterprise to fulfil its social responsibilities only to the extent its economic viability is not affected adversely. See, Ibid., p.219.
28. The Committee on Public Undertakings considered it "unfortunate" that the Govt. had taken so long to lay down social and economic obligations of Public Enterprises, as a result of which their performance "continued to be judged by a variety of vague objectives and considerations and affords scope for uninformed criticism, which makes for dilution of managerial accountability" see, COPU, Vth Lok Sabha, 40th Report, p.19.
29. The White Paper on Nationalised Industries, Cmnd. 1437, 1961 states that "although the nationalised industries had obligations of a national and non-commercial kind, they are not and ought not to be regarded as social services".

30. William G. Shepherd, 'Public Enterprises : Purposes and Performances' in W.T. Stanbury and Fred Thompson (eds.), Managing Public Enterprises (New York : Praeger, 1982) pp.13-50.
31. John Leslie Livingstone and Sanford C. Gunn, Accounting For Social Goals (New York : Harper and Row, 1974).
32. Boris Pleskovic and Gustavo Trevino, The Use of A Social Accounting Matrix Frame Work for Public Sector Analysis : The Case Study of Mexico. ICPE Monograph Series No.17, ICPE, Yugoslavia, 1985.
33. Harry A. Lipson, 'Do Corporate Executives Plan for Social Responsibility' in Archie B. Carroll (ed.), Managing Corporate Social Responsibility (Boston : Little, Brown and Company, 1976), pp.191-192.
34. Vernon M. Buehler and Y.K. Shetty, 'Managerial Response to Social Responsibility Challenge' in Ibid., pp.107-119.
35. Laxmi Narain, 'Township Outlay', paper presented at the Bangalore Seminar of the Institute of Public Enterprises held in September, 1969.
36. V. Viswanatham and P. Subramanayam, 'Social Responsibility and Performance of Public Enterprises : A Case Study of APSRTC', in Y.S. Rao (ed.), Public Enterprises : A State Level Perspective (Delhi : B.R. Publishing Corporation, 1986), pp.231-253.
37. Palas R. Sengupta, Corporate Reporting In the Public Sector-Analysis of Disclosure and Readability; Un-published project paper, (Department of Commerce, University of North Bengal, 1980).

38. D.R.Singh and Jagmohan Ahuja, 'Corporate Social Reporting In India', International Journal of Accounting Education and Research, Vol.18, No.2, Spring 1983, pp.151-169.
39. Palas R.Sengupta, 'Pollution Disclosures In India', The Chartered Accountant, Vol.XXXVII, No.1, July 1988, pp.20-22.
40. Ibid.

Annexure : I

Public Sector Outlay under the Plans  
(Rs. in crores)

	Public Sector	Private Sector	Total	Percentage of public sector to the total
I Plan	1,960	1,800	3,760	52%
II Plan	4,672	3,100	7,772	60%
III Plan	8,577	4,190	12,767	67%
IV Plan	13,655	8,980	22,635	60%
V Plan	31,400	16,161	47,561	66%
VI Plan	97,500	74,710	1,72,210	57%
VII Plan	1,80,000	1,68,148	3,48,148	51%

Source : Laxmi Narain, Principles & Practice of Public Enterprise Management (1988)

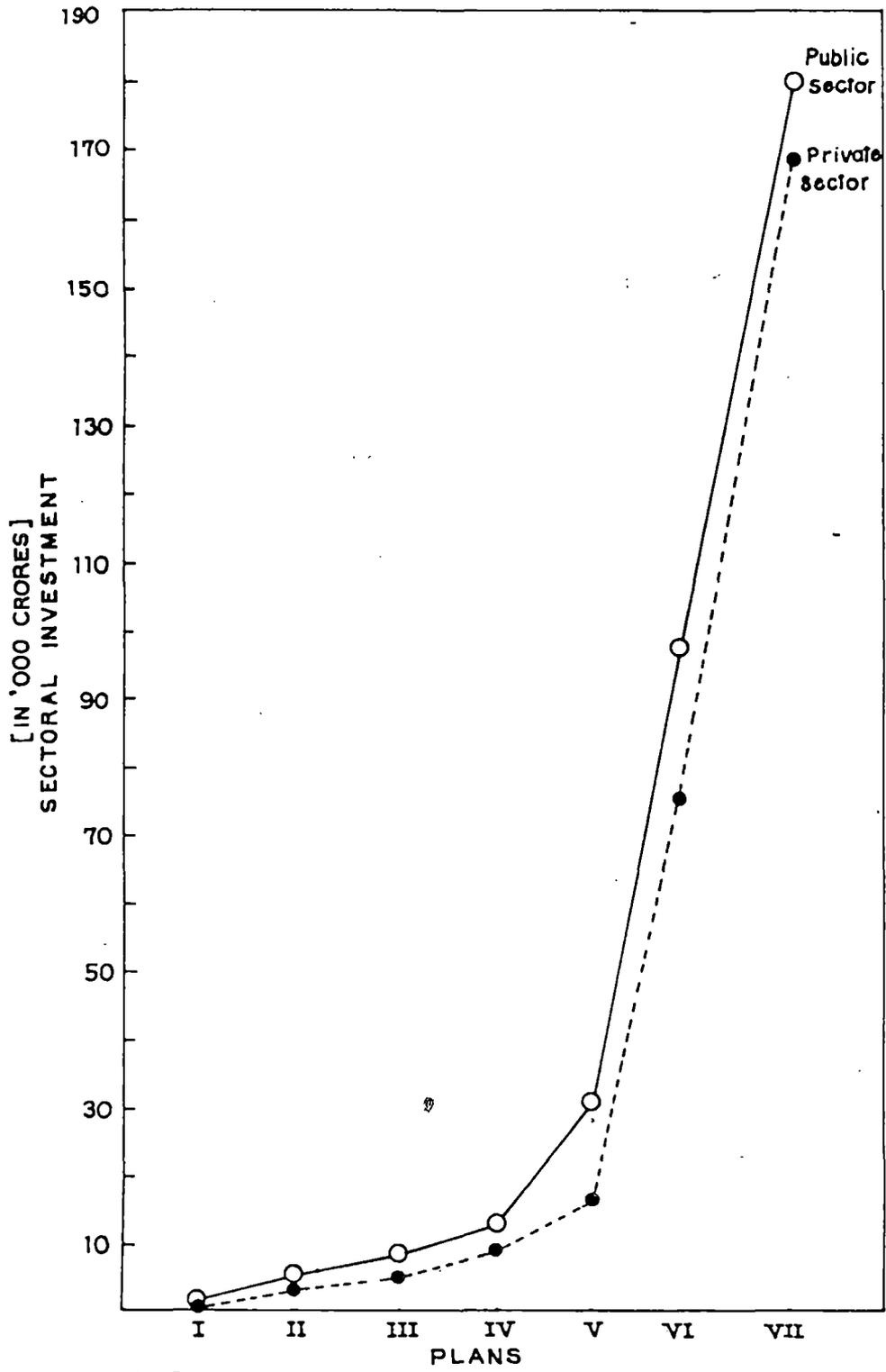


Fig. 2.

Annexure : II

Growth Of Investment In The Public Sector

As on	Number of Enterprises	Investment (Rs. in Crores)
1-4-51	5	29
1-4-56	21	81
1-4-61	48	953
1-4-66	74	2415
1-4-69	85	3902
1-4-74	122	6237
1-4-79	176	15602
1-4-80	186	18225
1-4-81	185	21102
1-4-82	205	24916
1-4-83	209	30038
1-4-84	214	35394
1-4-85	221	42811

Source : Public Enterprises Survey,

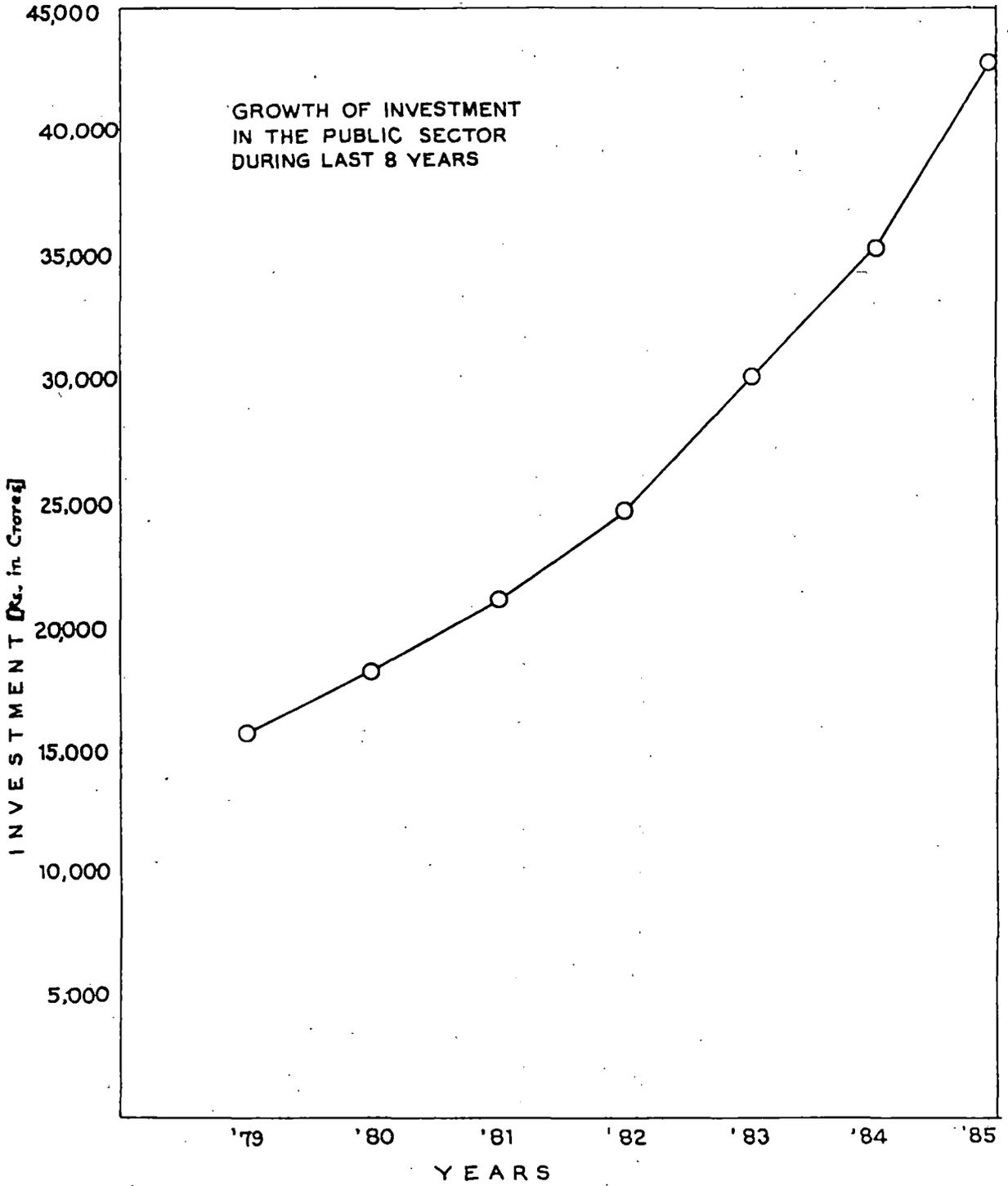


Fig. 3.

## Annexure : III

## Public Sector in Indian Economy

Item/Indicator	Unit	Period	Public Sector	Entire Economy	Public Sector as per cent of entire economy
1	2	3	4	5	6
A. Economy as a whole					
Net domestic product (at current prices)	Rs. crores	1979-80	20,032	97,051	20.6
Gross domestic capital formation	Rs. crores	- do -	11,718	24,970	49.6
Gross domestic savings	Rs. crores	- do -	4,015	23,055	17.4
Employment	Lakh Nos.	31.3.80	188	2812	6.7
B. Sector-wise & Industry-wise position Agriculture and allied sectors					
Agriculture : Net domestic product	Rs. crores	1977-78	361	30,359	1
Forestry : Net domestic product	Rs. crores	- do -	297	935	32

/contd...

Annexure : III contd.

1	2	3	4	5	6
(i) Mining and quarrying					
Net domestic product	Rs. crores	1977-78	632	928	68
Fuels					
Coal	Million tonnes	1979-80	100.8	103.9	97
Lignite	Million tonnes	-do-	2.90	2.90	100
Natural gas	Million cu mt.	-do-	2,730	2,764	99
Petroleum (crude)	Million tonnes	-do-	11.73	11.77	99
Metallic Minerals					
Iron ore	'000 tonnes	1978-79	7820	38,600	20
Lead concentrates	tonnes	1979	20938	20,938	100
Manganese Ore	'000 tonnes	1978-79	410	1,570	26
Zinc concentrates	tonnes	1979	71677	71,677	100
Non-Metallic Minerals					
Diamond	'000 carat	1979	15	15	100
Pyrite	'000 tonnes	1979	74	74	100
Phosphorite	'000 tonnes	1978	743	743	100

/contd...

Annexure : III contd.

1	2	3	4	5	6
(ii) Manufacturing					
Net domestic products	Rs. crores	1977-78	1730	11,696	15
Cotton Textiles					
Fabrics	Min. mts.	1979	940	3,206	29
Yarn	Min. kgs.	-do-	70	952	7
Newsprint	'000 tonnes	1978-79	48	48	100
Fertilisers					
Phosphate	'000 tonnes	1977-78	360	543	67
Urea	'000 tonnes	-do-	1030	3065	34
Drugs & Pharmaceuiticals:					
Prod'n.	Rs. crores	1978-79	60	1050	6
Cement	Lakh tonnes	1979	18.66	182.59	10
Basic Metal Industries					
Ferrous Metal					
Saleable pig iron	'000 tonnes	1979-80	976	1040	89
Saleable steel	Min. tonnes	-do-	4.6	6.0	76
Steel ingots	Min. tonnes	-do-	6.4	8.0	79

/contd...

/Annexure : III contd.

1	2	3	4	5	6
Non-ferrous Metals					
Aluminium	'000 tonnes	1979-80	29.5	191.9	15
Copper ingots	'000 -do-	-do-	22.5	22.5	100
Lead	'000 -do-	-do-	11.4	11.4	100
Zinc	'000 -do-	-do-	44.5	52.6	85
Gold	kg.	-do-	2,575	2,575	100
Silver	kg.	-do-	11,465	11,465	100
Industrial Machinery					
Power boilers	Rs. crores	1978-79	223.7	223.7	100
Machine tools	Rs. lakhs	-do-	5490	13700	40
Electrical Machinery					
Hydro sets	MW	1977-78	534	830	64
Transformers (power)	MVA	-do-	2787	15600	18
Electric Equipment					
Telephone	'000 nos.	1978-79	4123	4123	100
Teleprinters	Nos.	-do-	6725	6725	100
Manufacture of Transport Equipment					
Shipbuilding & repairs	Rs. crores	1978-79	132.7	132.7	100
Railway locomotives	Nos.	1979	189	189	100
Railway coaches	Nos.	1978	1041	1041	100

/contd...

Appendix-III contd.

1	2	3	4	5	6
Defence Equipment	Rs. crores	1978-79	429	429	100
Electricity, Gas and Water Supply					
Non domestic product	Rs. crores	1977-78	809	926	87
Power generation :					
Production	Min kwh	1977.78	84,723	91,370	93
(iii) Banking and Insurance					
Banking : Aggregate					
deposits	Rs. crores	Dec.31, 1978	27394	28394	96
Branches	Number	June 30, 1975	15077	18730	81
Insurance : Life					
New Business	Rs. crores	1978-79	2073	2073	100
General : Net Premium	Rs. crores	1978	347	347	100
(iv) Transport, Storage and Communications					
Railways : Capacity	Route Km.	1979-80	60,933	60,933	100
Shipping : Capacity	GRT min.	1980	3.1	5.6	56

Source : Commerce Year Book of the Public Sector, Bombay, 1980-81.

Annexure : IV.1  
 Classification<sup>of</sup> Public Enterprises according to Age (from  
 date of incorporation to date)

Age of Undertakings (in years)	Number of Running Public Enterprises (as on 31.3.85)
Below 5 years	4
5 - 10 "	35
10 - 15 "	55
15 - 20 "	33
20 - 25 "	30
25 & above "	50
Total = 207	

Annexure: IV.2  
 Classification<sup>of</sup> operating Public Enterprises according to  
 Gross Block during 1984-85

Gross Block (Rs. in lakhs)	Number of Running Public Enterprises
Below 10	8
10- 100	18
100- 500	40
500- 1000	19
1000- 5000	56
5000- 10000	20
10000- 25000	18
25000- 50000	12
50000-100000	11
100000 & above	5
Total = 207	

Annexure : IV.3

Classification<sup>of</sup> operating Public Enterprises according to  
Employment

Number of Employees		Number of operating Public Enterprises
Below	- 100	13
100	- 500	30
500	- 1000	23
1000	- 5000	74
5000	- 10000	23
10000	- 20000	21
20000	- 30000	10
30000	- 40000	3
40000	- 50000	3
50000	- 100000	2
100000	& above	5
Total		= 207

ANNEXURE : V

List of Public Enterprises Constituting the sample For  
Enterprise Level Analysis

<u>Enterprise Name</u>	<u>Periods for which Annual Reports were available</u>
1. National Mineral Development Corporation Ltd. (NMDC)	1983-84
2. Uranium Corporation of India Ltd.(UCIL)	1984-85
3. Hindustan Organic Chemicals Ltd.(HOC)	1984-85
4. The Mineral & Metals Trading corporation of India Ltd. (MMTC)	1985-86
5. Steel Authority of India Ltd.(SAIL)	1983-84
6. Hindustan Steel Works Construction Ltd. (HSWCL)	1984-85
7. Neyveli Lignite Corporation Ltd.(NLCIL)	1984-85
8. Hindustan Prefab Ltd. (HPL)	1984-85
9. Metallurgical & Engineering Consultants (India) Ltd. (MECON)	1984-85
10. National Textile Corporation (Andhra Pradesh, Karnataka, Kerala & Mahe) Ltd. [NTC (APKKM)]	1984-85
11. H.M.T. Limited (HMT)	1984-85
12. Lubrizol India Ltd. (LUBRIZOL)	1984-85
13. The Handicrafts & Handlooms Export Corporation Of India Ltd.(HHEC)	1984-85
14. Madras Refineries Ltd. (MRL)	1984-85
15. Bharat Electronics Ltd. (BEL)	1985-86
16. Dredging Corporation Of India Ltd.(DCIL)	1984-85
17. Hindustan Fertilizer Corporation Ltd. (HFC)	1983-84
18. Indian Oil Corporation Ltd. (IOC)	1984-85
19. Instrumentation Ltd.(INSTRUMENTATION)	1984-85
20. Bharat Aluminium Company Ltd.(BALCO)	1982-83
21. The National Newsprint & Paper Mills Ltd. (NEPA)	1983-84
22. Bongaigaon Refinery & Petrochemical Ltd.(BRP)	1983-84
23. Projects & Development India Ltd.(P&D)	1984-85
24. Goa Shipyard Ltd. (GOA)	1983-84
25. Indian Rare Earths Ltd.(IREL)	1984-85