CHAPTER - I

INTRODUCTION - THE PROBLEM : CONCEPTUAL FRAMEWORK

A public sector undertaking means an undertaking which is owned, managed and controlled by the Government. The present structure of Indian economy is often characterised as "Mixed Economy". Mixed economy is operated through the existence of both the public sector and private sector. The existence of public sector in the Indian economy is by no means a novel experiment. Even in the pure capitalist countries of the West, the State has not only interfered in the economic life at time but also participated directly in the production and distribution activities. The role of State in economic development has been very significant particularly in those countries where the process of industrialisation was started quite late. The contribution of state in industrialisation has been important even in countries like Japan, Germany and the U.S.A.

"Public Sector" is often used as a synonym of public enterprise in contrast with "Private Sector". The International Centre for Public Enterprises (ICPE) offered the following definition and objectives of the public enterprises :

> "A public enterprise is an organisation which is :
>
> — owned by public authorities including Central, State or local authorities, to the extent of 50 percent or more;
>
> — is under the top managerial control of the owing public authorities, which public control including inter-alia, the right to appoint top management and to formulate critical policy decision;
>
> — is established for the achievement of a defined set of public purpose, which may be multi-dimensional in character.
>
> — and is consequently placed under system of public accountability;
>
> — is engaged in activities of a business character;
>
> — involves the basic idea of investment and returns;
>
> — and which markets its outputs in the shape of goods and services".

OBJECTIVES

The following are the objectives of public enterprises :

(i) Help in the rapid economic growth and industrialisation of the country and create the necessary infrastructure for economic development;

(ii) Earn returns on investment and, thus, generate resources for development;

(iii) Promote redistribution of income and wealth;

(iv) Create employment opportunities;

(v) Promote balanced regional development;

(vi) Assist the development of small-scale and ancillary industries;

(vii) Promote import substitution, save and earn foreign exchange for the economy;

(viii) Act as a countervailing force and put up an effective competition to undertakings in the private sector; and

(ix) Gain control over the commanding heights of the economy.

However, the Five Year Plan and other official documents also use the term "Public Sector" in the wider sense to cover all Governmental activities, including public, industrial and commercial enterprises. Literally, we can say that a public enterprise is an organisation which is owned by public authorities to the extent of 50% or more, is under the top management control of the owning public authority is engaged in activities of a business character and it markets its output in the shape of goods and services for a price.

Another term usually used for public enterprise is "Public undertaking". Strictly speaking any activity of the Government business or otherwise — is its undertaking, but the term perhaps has a limited use for industrial ad commercial activities. It is used with reference to the parliamentary "Committee on Public Undertaking". But the very some enterprises as covered by the parliamentary committee are dealt with by the "Bureau of Public Enterprise" in the Ministry of Industry.

Prior to our independence the British policy was totally laissez faire. It was conveniently in harmony with the law of comparative advantage that the Indian economy should be for ever confined to agricultural and extractive industries. As early as 1880, the Indian Famine Commission has recommended "development of industries" and "encouragement of occupations" as the complete remedy for frequent famines. However, as stated in the report of the Indian Industrial Commission, 1918, upto 1904, the Government's policy of industrial development was technical and industrial education, the collection and dissemination of commercial information by holding exhibitions, starting commercial museums, examination of industrial resources by the Reporter on Economic Product, and publications of a series of provincial monographs on Indian industries.

In 1905, the Department of Commerce and Industry was established by the Government to encourage the industrialisation in the country. The first Member-in-Charge of the department, Sir John Hewett held a Conference in 1907 Nainital in pursuance of which loans or grants were given to several concerns, especially sugar factories. The Government's pioneer Oil Mill was started at Kanpur under the management of a European agency firm.

Congress party at its Nagpur Session in 1891 had drawn attention to the economic maladies of the nation and suggested measures to overcome them. But only in 1931, as a part of its "Economic and Social Programme" it resolved, "The State shall own or control key industries and services, mineral resources, waterways. shipping and other means of public transport."

In 1937, when the Congress came to power in many provinces, the President of the Congress Mr. Subhas Ch. Bose, called a conference of Industry ministers of the Provinces where the Congress was in office to consider the question of economic development. The Conference emphasised the need for industrialisation and recommended drawing up of a comprehensive national plan for this purpose. This came to an end with the establishment of the National Planning Committee under the Chairmanship of Pandit Jawaharlal Nehru. Industries were classified into defence, key and public utility and the committee recommended that they should be owned and operated by the state. The public utilities which could be owned by the Central, Provincial or local governments were to cover distribution of electricity and gas, public transport and communication, Water supply and Sanitation. The key industries include among others were power generation, fuel including coal, mineral oil, and natural gases, machine tools, industry for preparation of machinery and parts of machinery, heavy engineering industries for the building of ships, locomotives, wagons, automobiles, aircraft and the like metals, ferrous and non-ferrous, heavy and fine chemicals including dyes, fertilizers and refractories.

Industrial Policy statement of 1945 was released on the 21st day of April '45. The statement also confined the continuation of Ordinance factories, Railways, Post Office and public utilities already under Government ownership and operation. It also stated clearly that basic industries of national importance be nationalised. (i) Provided adequate capital is not forthcoming and (ii) it is regarded as essential in the national interests to promote such industries. The basic industries, were expected to cover aircraft, automobiles and tractors, chemicals and dyes, iron and steel, prime movers transport vehicles, electrical machinery, machine tools, electro-chemicals and non-ferrous industries.

When the Congress Government came to power in 1947, it had the urgent and difficult problem of curing the evils of arrested development by securing growth at a fast rate. The Industrial Policy resolution 1948 (First Policy after Independence) emphasised expansion of production in the short run, along with the need and importance for public enterprise to grow. In the words of the resolution "Any improvement in the economic condition in the country postulates an increase in national wealth, a mere redistribution of existing wealth would make no difference to the people and would merely mean the distribution of poverty .... when the mass of the people are below the subsistence level, the emphasis should be on the expansion of production .... The problem of State participation in industry and the conditions in which private enterprise should be allowed to operate must be judged in this context. There can be no doubt that the state must play a progressively active role, in the development of industries but ability to achieve the main objectives should determine the immediate extent of state responsibility and the limits to private enterprises. The resolution also referred to the steps to taken by the government to remedy the hurdles in the ways of state management and ownership of industry in particular by creating a body of men trained in business methods and management".

The Constitution of India which was adopted by our Government on 26th day of January, 1950 stated clearly in Article 39(b) and (c) that "the ownership and control of the materials resources of the community are so distributed as best to subserve the common good" and "that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment". Attainment of these objectives is fundamental to growth of public enterprise as the presumption is that public enterprise alone would help achieve these objectives.

The Second Industrial Policy Resolution, 1956 referred to the Directive Principles of State Policy, the socialist pattern of society and the need for a planned and rapid development and declared 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 are essential and require investment on a scale which only the state could provide have also to be in the public sector." The Government was therefore "to assume direct responsibility for the future development of industries over a wide area". The resolution made a specific reference to undertaking by the government of "state trading on an increasing scale."

The industrial policy announced by the Janata Government on December, 23, 1977 envisaged public enterprise as a means of socialising the means of production in strategic areas and for providing a countervailing force to the growth of large houses and large scale enterprises in the private sector. It also envisaged a greater role for public enterprise in several fields — e.g., production of important and strategic goods of basic nature, acting as a stabilising force for maintaining essential supplies for the consumer and encouraging a wide range of ancillary industries in the small scale and cottage industry sectors

The industrial policy statement which was adopted by the Congress Government headed by Mrs. Indira Gandhi after recapturing the power in January 1980 fully endorsed the 1956 resolution. It was placed at the floor of Parliament on 23rd July, 1980. The industrial policy resolution of 1956 was fully endorsed by the industrial policy statement of 1980 which according to it "reflects the value system of our country and has shown conclusively the merit of constructive flexibility". The statement referred to be "gigantic task" of rehabilitating faith in the public sector and of evolving effective operational systems of management in public enterprise. The statement wanted "the public sector to be identified as the peoples' Sector and not as nobody's sector as was rendered by the last Government." The statement did not specify any area of further extension of public enterprises, but it added in a general way that the public sector will continue to play an increasingly important role. This policy put stress on improving the management of public enterprises. According to the statement, "Part of the reason for unsatisfactory performance of some of the units in the Public Sector has been the absence of proper management cadre". The statement proposed "to take effective steps to build up public sector undertakings" by "developing management cadres" in functional fields such as operations, finance, marketing and information systems.

After the brutal assassination of Mrs. Indira Gandhi her son Mr. Rajiv Gandhi took over the charge as Prime Minister of India in 1984. This Government has a marked thrust towards liberalisation through large scale licensing broad banding of industries which remain within the ambit of licensing and the higher endorsement of capacity. Some fields like telecommunication, Oil exploration, oil refining and Civil aviation, exclusively reserved for public enterprises has also been through open to the private sector. But the Government has so far not come out with any formal policy statement, but it has been repeatedly stated by Mr. Rajiv Gandhi that there is no change in the policy. In 1985 Mr. Gandhi in his address to the National Development Council stated "There was no question of reducing the role of the public sector. The key role assigned to

public sector was intact. Infect, investment in public sector in the seventh plan was marginally higher as proportion to the total plan". However, this was not borne out by the figures in the plan document.

Regarding the role of the Public Sector, the view of the Seventh Plan is that the emphasis should be on consolidation, improvement and modernisation rather than on large expansion of capacity except when it is imperative" (The Economic Times, 20th Dec. '85). For the Public Sector in the various stated, it was stated in the Seventh Plan that the growth of the state Public enterprises would be moderated so that the attention could be devoted to their consolidation and improvement of performance so that they can contribute to state finance rather than be a drain on the state exchequer. Thus it can be concluded that the Seventh Plan did not envisage the expansion of Public enterprises except on compulsive grounds. The ideological commitment thus appeared to have weakened now to a considerable extent.

The liberalisation process which started from the year 1984 gained its momentum in July 1991 when another new Industrial Policy statement viz. Industrial Policy Statement of 1991 came into existence.

Succinctly the objectives of the New Industrial Policy are :

(i) Self-reliance to build on the many sided gains already made.

(ii) Encouragement to Indian entrepreneurship, promotion of productivity and employment generation.

(iii) Development of indigenous technology through greater investment in R & D and bringing in new technology to help Indian manufacturing units attain world standards.

(iv) Removing regulatory system and other weaknesses.

(v) Increasing the competitiveness of industries for the benefit of the common man.

(vi) Incentives for industrialisation of backward areas.

(vii) Enhanced support to small-scale sector.

(viii) Ensure running of public sector undertakings (PSUs) on business lines and cut their losses.

(ix) Protect the interests of workers.

(x) Abolish the monopoly of any sector in any field of manufacture except on strategic or security grounds.

(xi) To link Indian economy to the global market so that we acquire the ability to pay for imports, and to make us less dependent on aid.

In pursuit of the above objectives , Government has decided to take a series of initiatives in respect of the policies relating to the following areas;

A. Industrial Licensing.
B. Foreign Investment.
C. Foreign Technology Agreements.
D. Public Sector Policy.
E. MRTP Act.

Meanwhile, in 1989 Lok Sabha election a non-congress Government was formed under theleadership of Mr. V. P. Singh. But the tenure of the Government was only two years. After two years again the Lok Sabha Election took place and the Congress Party headed by Mr. Narasimha Rao came into power. In line with the liberalisation measures announced during the mid eighties the Government announced a New Industrial Policy on July 24, 1991. This new industrial policy deregulates the industrial economy in a substantial manner. The role of the Public sector was diluted considerably. The member industries reserved for the public sector has now been reduced to 8. Among the industries reserved earlier were many core industries like Iron and Steel, Electricity, Air Transport, Ship building, Heavy machinery industries such as heavy electrical plants and telecommunication cables and instruments. The new industrial policy has removed all these industries from the Reserved list. Industries where security and strategic concerns predominate will be reserved for the public Sector. These areas are 8 in number : (i) arms and ammunition and allied items of defence equipments defence aircrafts and warships, (ii) Atomic energy, (iii) Coal and lignite (iv) mineral oils (v) mining of Iron Ore, Manganese Ore, Chrome Ore, Gypsum, Sulphur, Gold and Diamond, (vi) Mining of Copper, Lead, Zinc, Tin, Molybinum and Wolfram, (vii) minerals specified in the schedule to the atomic energy (Control of Production and Use) Order, 1953 and (viii) Rail Transport.

That new industrial policy also stated that the government will undertake review of the existing public enterprises in low technology, Small Scale and non-strategic areas as also when there is low or nil social consideration of public purpose. Sick units will be referred to the Board for Industrial and Financial reconstruction (or a similar body) for advice about rehabilitation and reconstruction. For enterprises remaining in the Public Sector, it is stated that they will be provided a much greater degree of management autonomy through the system of MOU (Memorandum of understanding).

The Government has also announced its intention to offer a part of Government shareholding in the Public Sector enterprises to mutual funds, financial institutions, the General Public and the workers. A beginning in the direction was made in 1991 - 92 itself by divesting part of the equities of 30 selected Public Sector enterprises (which was placed with mutual funds) and Rs. 3000/ - Crores was raised through this means. The new industrial policy indicates the Government's intention to invite a greater degree of participation by the Private Sector in important area of the economy.

So, we can conclude that the ideological commitment of the Government announced by it in the mid fifties has been shifted to a considerable extent.

LIMITATIONS OF 1991 POLICY

1. Virtual scrapping of licensing means absence of a mechanism to determine priorities and to develop backward areas.

2 The policy is silent about tackling the growing industrial sickness. The government has not announced a clear exit policy for sick units. Clearly, government seems to have yielded to the pressure of trade union lobby.

3. Off-loading of 20 percent equity in profit making public sector units to mutual funds is a revenue raising exercise than genuine attempt at privatisation.

4. Even with the scrapping of all regulations, the expected foreign investment may not come through. Infrastructural deficiencies will deter foreign investment.

5 The policy is drafted at the behest of IMF which means virtual surrender of economic sovereignty of the country to a foreign agency.

Now let us have a look on the various forms of public enterprises found in India. Generally at the microlevel we observe three types of forms of organisation for public enterprises. They can be stated as under :

1. DEPARTMENTAL FORM OF ORGANISATION

This is the oldest form of managing government enterprises. Even today important activities like the Railways, and the Post and Telegraph are operated departmentally. Tarapur Atomic Energy Plant, Delhi Milk Scheme and Road Transport in some States are the few examples of departmentally run commercial enterprises.

2. THE PUBLIC CORPORATION

Public Corporations are those corporations which are established by an act in the Parliament. Mainly due to the bad experience which the Government had with the Damodar Valley Corporation, the Public Corporation device was used only sparingly after 1948. In 1953, the two Air Corporation, viz. the Indian Airlines and Air India were created under the Air Corporation Act. The State Bank of India was established in 1955, the Life Insurance Corporation in 1956 and the Oil and Natural Gas Commission 1959 Apart from these, the statutory corporation device has been used for enterprise of a banking nature (for example, the Deposit Insurance and Credit Guarantee Corporation, the Unit Trust of India, the National Bank for Agriculture and Rural Development). Two other Acts which established Central Public Corporations also permitted the State Governments to establish their own statutory bodies which are the warehousing Corporation Act, 1962, and the Food Corporation Act, 1964.

3. THE GOVERNMENT COMPANY

The Government Company according to Section 617 of the Companies Act is that in which not less than 51 percent of the paid up share capital is held up by the Central Government or by the State Government or Governments or Jointly by the Central and State Governments. A Company which is a subsidiary of a Government Company is also a Government Company.

It can be stated that most of the Central Government Companies are fully owed by the State. But a few Company like Madras Fertilizers Limited, and the Madras Refineries Limited have foreign equity participation. A few company like the National Newsprint and Paper Mills Limited, the Prage Tools Limited have Private Indian participation. The National Project Construction Corporation Limited has equity participation of more one State Government.

In early times men who engaged in trade by sea attempted to minimise the losses which resulted from the perils of the sea by spreading the losses amongst a large number of persons who are similarly engaged. Naturally many ships arrived safely in port and it was only a few that suffered loss. The many who did not suffer loss contributed to mitigate the sufferings of the few who did. So much good followed from this arrangement that the traders adopted the idea in many lands and gradually there came into existence groups of men who specialised in managing the funds and studies the rates of loss which occurred in the different types of marine ventures. This was the beginning of marine insurance.

Evidence is available about crude forms of merit-time contracts made by Babylonians, Rhodians and Greeks about the middle of third millennium B.C. However, the early history of insurance is hidden in the midst of antiquity. The earliest available reference to some form of insurance is found in the codes of Hammurabi and Menu (Manav Dharma Shastra). The terms YOGAKSHEMA is used in the Rig Veda suggesting that some form of community insurance was practised by the Aryans in India over 3000 Years ago.

In India, burial societies are known to have existed during the Buddhist Period which were invariably mutual in their character. The village community came to the help of a family by building up a house, protecting the widow, marrying girls according to the status of the family, educating children and apprenticing boys in business. The same principle was observed through collection in temples, Churches and charitable institutions. An outstanding example of the institutions of mutual help in our country is the Joint Family system.

The early development of insurance was spasmodic and was restricted mostly to fields other than life. Scientific life assurance is a heritage from England, where the first life policy, providing temporary cover for a period of twelve months, was issued as early as 1583 A.D. The "Amicable Society" (1705) granted fluctuating sum on death till this society and accumulated sufficient funds to grant a fixed sum on death (1757). The development of mortality tables was a landmark in the history of life assurance. With this development life assurance acquired a scientific character. The Equitable Society founded in 1762, was the first to be founded on a scientific basis with premiums computed according to age and period of insurance.

The early history of modern insurance in India is somewhat obscure. The earliest references are traceable to the days of the East Indian Company when policies on the lives of its officers were issued by some British Offices in Sterling Currency. Also one or two societies attached to the Churches had started "Funds" to help the members of the Parish.

A few British Companies, which attempted to write business on the lives of Indians, came to grief or were amalgamated with others. The failure of two British Companies, the European" and the "Albert" in 1870 adversely affected many people in this country.

The first organised effort to established a life assurance office in India was made in 1870 with the formation of the Bombay Mutual Assurance Society Ltd. In the initial years after its formation, this Society was content with operating on a limited scale, and it was left to the "Oriental Government Security Life Assurance Company Ltd. (estd. 1874), the first proprietory Life Office to be formed in India, to expand the business in an organised manner throughout India and abroad. A few years later, "Bharat" (estd. 1896) and the "Empire of India" (estd. 1897) were established.

The Swadeshi Movement of 1905 provided impetus to the formation of several companies such as the "Hindustan Co-operative", the "United India", the "Bombay Life", the "National" the "General", the "Asian" and the "Indian Mercantile". It was in the wake of the Freedom Movement that a number of companies such as the "New India", the "Industrial and Prudential" the "Jupiter", the "Lakshmi", etc. came to be established. A further spurt in the formation of new companies was witnessed during the Second World War when inflationary pressures tended to swell the volume of business written in the country.

Although a number of Indian Offices had come into existence, the volume of business written by them was negligible till the end of the First World War, the insurance field being mostly in the hands of British and American Offices. After the termination of the First World War, the pace of industrialisation was accelerated in India. The Swadeshi Movement had already gathered momentum and with the intense nationalism that permeated Indian thought in the twenties, Indian Offices began to take their due share of the country's business. From then onwards, Indian Insurance business continuously progressed and every passing year witnessed a slow but steady rise in the per capita insurance in the country. At the close of the Second World War the proportionate share of the business written by the Indian insurers had increased to over 90% of the total new business written in India.

The Government began to exercise a certain measure of control on insurance business with the passing of the first Insurance Act in 1921. The marked increase in the volume of Life Assurance business since then and the development of other forms of insurance business soon suggested that more comprehensive legislation was needed. With a view to establish closer supervision and control in matters of investment of funds, expenditure and General Management of insurance business, Government enacted the Insurance Act, 1983. Simultaneously, the Department of Insurance under the authority of the Superintendent of insurance was established. This Act was extensively amended i 1950. The Controller of Insurance is currently responsible for the administration of this Act. An Insurance Year Book (Blue Book) is published by the Controller of Insurance every year giving information relating to the progress of life and other types of insurance business in India.

In the year 1995, approximately 170 insurance offices and 80 Provident Fund Societies had been registered for transacting life assurance business in India.

A few of these were foreign companies with their head office outside India. In addition to these insurers, a large number of other insurers who had registered themselves for transaction of life assurance business had either gone into liquidation or had been taken over by the existing insurers.

From a study conducted at about that time, it was found that the concept of trusteeship which should be the cornerstone of life insurance seemed entirely lacking and most managements had no appreciation of the clear and vital distinction that exists between trust moneys and those that belonged to joint stock companies owned by the shareholders. Therefore it was felt necessary to nationalise insurance business in India with a view to (i) providing for cent per cent security to policyholders, (ii) ensuring the use of life insurance funds for nation building activities, (iii) avoiding wasteful efforts in completion, (iv) saving the dividends paid to shareholders of insurance companies, (v) avoidance of certain undesirable practices adopted by some of insurance companies managements who had been misusing their power, position ad privilege frithering away the resources belonging to policy holders and (vi) spreading the gospel of insurance beyond the more advanced urban areas well into the hitherto neglected rural areas.

The Government of India took the first step towards nationalisation of life assurance business in India on the 19th January, 1956, by promulgating an ordinance vesting the management and control of life insurance business in India in the Central Government. However, the companies continued to exist as separate entities and the ownership continued with the respective shareholders until the LIC Act came into force. It will be appropriate to quote here the words of the then Finance Minister Shri C.D. Deshmukh, from his broadcast to the Nation on the eve of the promulgation of the Life Insurance (Emergency Provisions) Ordinance, 1956, regarding the purpose of nationalisation. He said:

> "The nationalisation of life insurance will be another milestone on the road the country has chosen in order to reach its goal of a Socialistic Pattern of Society. In the implementation of the Second Five Year Plan, it is bound to give material assistance. Into the lives of the millions in the rural areas, it will introduce a new sense of awareness of building for the future, in the spirit of calm confidence which insurance alone can give. It is a measure conceived in a genuine spirit of service to the people. It will be for the people to respond, confound the doubters and make it a resounding success".

The Life Insurance Corporation Act (Act XXXI of 1956) was passed by the Parliament in June, 1956 and it came into force on the 1st July, 1956. By this act, all the assets and liabilities appertaining to the life assurance business in India of all registered insurers transferred to and vested in the Life Insurance Corporation of India as from the appointed day. The Life Insurance Corporation of India came into existence on the 1st September, 1956.

The name LIC is now not unknown to an Indian of average intelligence. The Life Insurance Corporation of India has taken pains to see that every district is represented by one or more members of its field staff. The magnitude of LIC's activities is large enough to impress any one. It collected on an average Rs. 43.35 crores (approx) per day as premiums during 1996-97 and added during this period a new business over rs. 52,071.53 crores of sum assured on individual lives. The LIC is serving about 709.60 lakhs of policies under individual insurance, besides it covers 2.49 crores of lives for a sum assured of Rs. 63,706.9 crores under the group insurance (as on 31st March, 1996). The total amount of sum assured on individual lives stood at Rs. 2,95,758.05 crores on 31st March, 1996. On 31st March, 1957 it was Rs. 1476.52 crores.

Utilisation of people's moneys invested in life insurance for planned economic development may be said to have begun 40 years ago on 1st September, 1956. When the LIC was formed one of the objectives of nationalised life insurance was the canalisation of its fund for the benefit and welfare of the nation. In pursuance of these norms, over the years, LIC has been investing its funds primarily in the public sector and it now constitute 84.63% of its total investments as at 31st March, 1996.

The LIC has been in a position to accumulate a massive Life Fund of Rs. 72,780.06 crores as at 31.3.96. In the year of 1957 the total amount of Life Fund was Rs. 410.40 crores. From the above figure the massive progress of LICI is quite evident. Major portion of this investable fund is invested for the benefit of the community. These comprise by and large, investments in the field of electricity, housing, water supply and sewerage, agriculture, agro-industries, industrial estates and bonds and shares of various financial corporation of the state, as well as all Indian level. Whereas at the end of 1957 LIC's investment in these socially oriented sectors were only Rs. 8 crores because of the purposive efforts made subsequently such investment as on 31st March, 1997 stood at Rs. 21832 crores. This is in addition to Rs. 46236 crores invested in the Central and State Government Securities which are also utilised for nation building activities.

The Life Funds so invested for the benefit of the community at large has accumulated to Rs. 87.760 crores as at 31st March, 1997 after meeting the liabilities towards the claims, management and other expenses, registering an increase of Rs. 14,980 crores during the year, 1996-97.

Group insurance schemes have been introduced for groups with regular incomes like primary school teachers, co-operative milk producers, and workers in shops and commercial establishments. Schemes have also been formulated for the benefits of artisans, tailors, barbers, masons, carpenters and other similar groups.

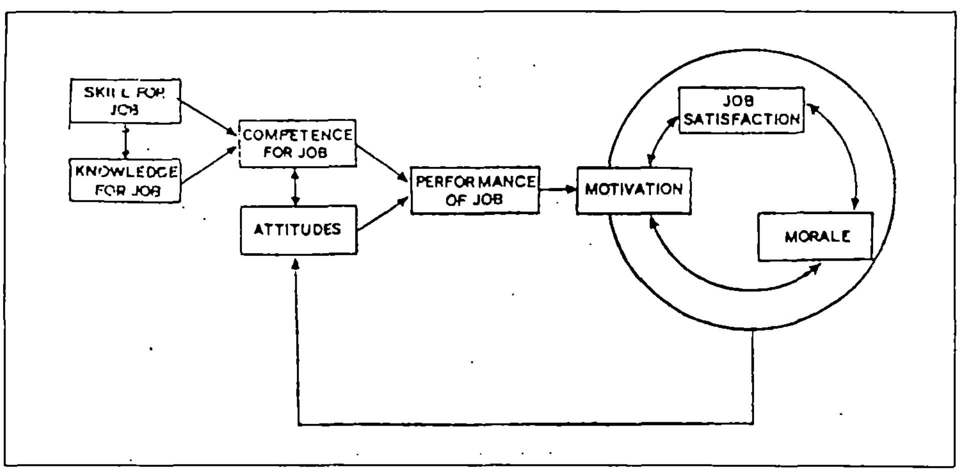
The LIC also helps to boost the industrial growth in the country. It help small scale and medium scale industries by granting loans for setting up cooperative industrial estates and an amount of Rs. 45 crores has so far been advanced to Cooperative Industrial Estates and Industrial Development Corporations. The LIC's assistance to State Level Finance Corporations and all India Finance Corporations like IDBI, IFCI, ICICI, etc. by way of subscription to bonds/ debentures issued by such institutions also indirectly helps development of small scale and medium scale industries. The Corporation also makes investment in the corporate sector in the form of long, medium and short terms loans to companies. the total investment made by way of loans upto 31st March, 1997 was Rs. 5878 crores and by way of subscription to shares/debentures/ bonds as at 31st March, 1997 was Rs. 11,841 crores. All these make a distinct contribution towards growth in industrialisation and generation of skilled and unskilled employment opportunities in the country.

II. OBJECTIVES OF THE PROPOSED STUDY : RESEARCH QUESTIONS

The proposed study seeks to make an in-depth analysis of the role and functioning of the L.I.C. as a public sector undertaking and the role of the employees employed in it. In fact, the success of such an organisation depends to a large extent on the active participation of its employees of all ranks - be it in the management and decision-making cadre or in the cadre responsible for implementing its policies. It is generally admitted that a public sector undertaking like the LIC has a wider field to cover with a view to serving the cause of the general people in a more effective way. The smooth functioning of such a gigantic organisation, spreading all over the country and covering million of people of all strate needs a sound work culture and an army of dedicated employees. This is very much crucial since the skill, ethos and motivation of the employees working in it are the essential components of such endeavour.

But whatever may be the theoretical position of the issue, one can not deny the fact that the all-round participation of the employees in such a task depends on two key factors : attitude of the employees towards the goal and functioning of the organisation and the degree of satisfaction that they can derive from the service they render in this organisation.

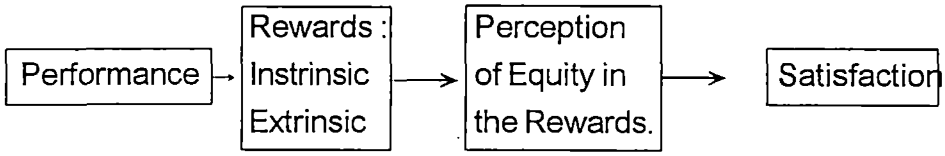
Attitude may be defined as 'a set to action with an emotional overtone. The entire conceptual frame of attitude and job-satisfaction can be presented in the following paradigmatic form :



Schematic relationship of attitudes, job satisfaction, morale, motivation and performance.

***Source :** Enlarged on 'Schematic relationship of performance, competence and attitudes'. Basu, K.S., Management Training, J.K. Industries, 1975.*

It has been very correctly observed that attitude as such contains two key elements : a set of action and an emotional attachment with the job. A high level of efficiency and consequently a high degree of attainment in goal directly affect the general work environment. In the same way, attitude of the employees towards the jobs they perform also enhances or retards the pace of development in such a venture.



Model of performance leading to job satisfaction.

Source : *Davis, K., Human Behaviour at Work, Tata McGraw-Hill, 1977, p. 74, as adapted from E.E. Lawler and L.W. Porter, "The Effect of Performance on Job Satisfaction", Industrial Relations, October, 1967, p. 23.*

With this brief background, the proposed study seeks to answer the following questions :

(a) What had been the general historical setting at the time of the establishment of the public sector undertakings in general and that of L.I.C. in particular in post-independent India ?

(b) What role did the PSUs were supposed to play in the general framework of mixed economy principle ?

(c) What had been the general impact of the changed socioeconomic environment on the working of the PSUs in general and that of LIC in particular ?

(d) What has been the general attitude of the employees towards the LIC as a PSU in Post- independent India ?

(e) In what way has the element of Job-satisfaction or otherwise enhanced or retarded the pace of development of the PSU in general and LIC in particular both at the macro and micro level under study ?

III. OVERVIEW OF THE EXISTING LITERATURE :

Although a good number of works on LIC had already been done, there is few or no work on this present dimension, namely, role of the employees in the LIC Division situated at a remote place and is intended to cater to the needs of the people belonging to two neighbouring states of West Bengal and Sikkim. Geographically, politically, economically and socially (including ethnic considerations and other related matters) these two States offer many peculiarities which cannot be found elsewhere. The cumulative impact of these factors are bound to have their profound impact on the general working of the LIC and the attitude of its employees towards its policies of placement, transfer, promotion and last but not least recruitment (in the face of the recent emergency of the "Sons of the Soil" syndrome). From this point of view, the study would assume new significance. It would go even a long way in bridging a long standing gap in the research priorities.

Of all the works on the general nature of the Public enterprises, the work by Laxmi Narayan entitled Public Enterprises in India (1996) demands special mentioning. The book covers a general survey of the PSUs, their nature, policies and the future trends. Besides this, there are other works PSUs in general context.

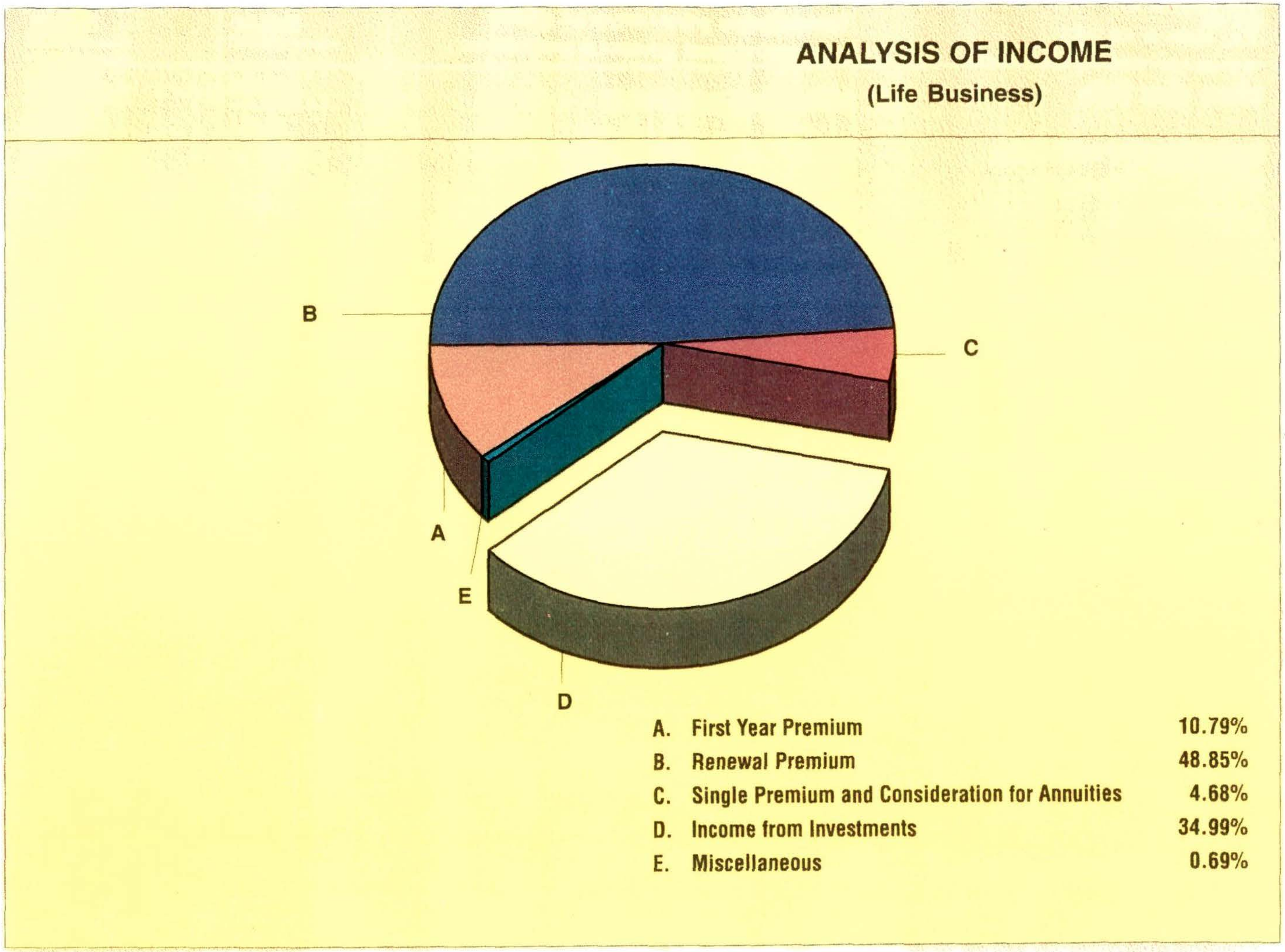
More particularly mention should be made of the following works on the insurance sector which deals with different dimensions of this PSU. But all these works are of general nature and basically unidimensional in character. The proposed study seeks to go beyond the general description and analysis of the working of the LIC. It would unfold the intricate relationship between the LIC and its employees and would focus on the general policy - pattern and its implications at a particular micro-level with different setting, environment and ethos of the employees. However, on the insurance sector, the names of the following works are worth mentioning :

The book entitled as "Insurance in India" written by Mr. A.N. Agarwala gave a brief description of the history of insurance business in India. The book entitled as "Elements of Life Insurance" written by O.P. Bajpaie intended to analyse the various elements of life insurance business. The book jointly authored by Mr. B.S. Bhir & M.D. Limaye entitled as "Insurance Principles and Practices" discussed about the various principles and practices of insurance. The history and growth of Life Insurance business in India had been discussed very elaborately by Mr. G.R. Deasi in his book entitled as "Life Insurance in India Its History and Dimension of Growth". The Organisation of Indian insurance has been discussed by Mr. S.P. Sharma in his book "Organisation of Indian Insurance." Mr. M.Y. Khan in his book entitled "Indian Financial System" discusses very briefly about statutory framework, investment pattern and activities in the capital market of LIC. It had also incorporated the steps taken by the government for the purpose of bringing reforms to the insurance sector. The section dealing with 'Select Bibliography' contains a detailed list of works in this field.

IV. METHODOLOGY

The study will primarily be analytical in nature. It would also try to make some policy suggestions wherever possible for the improvement in the functioning of the LIC both at the macro and micro levels. For a proper analysis, emphasis will be placed on screening the official documents, plans of investments, policies of covering the customers including policy statements with their priority areas, target groups and the general nature of welfare measurers. These will be supplemented by the application of statistical method wherever necessary to ascertain both the attitudes of the employees and their levels of satisfaction in the jobs. The attitude of the officers and employees towards LIC as a public enterprise and their level of job satisfaction that constitute the critical variables of the study have been measured through the application of the five point Likert Scale. A number of observations on the component parts of attitude and job satisfaction was identified, put to test (Pre-testing), finalized and administered through a structured schedule to the three categories of sample class I officers, class II officers and the employees. On the basis of their scores on the component items of attitude and job-satisfaction their position as favourable 'neutral', and unfavourable' has been ascertained.

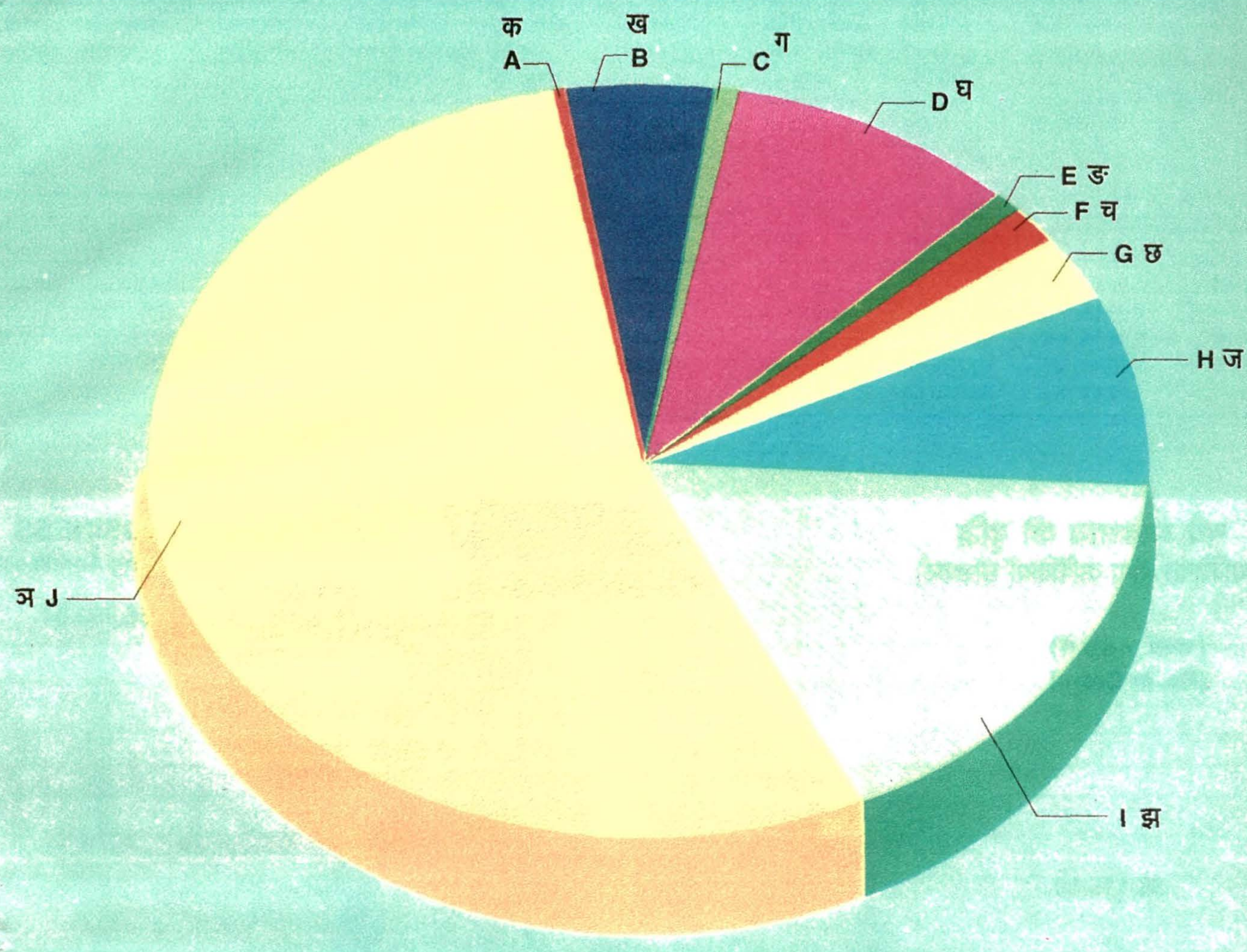
The universe of the study was the Jalpaiguri Division of the LICI. The Respondents among the class I officers, class II officers and the employees of the Universe were sampled following the procedures of random sampling (for the employees) and purposive sampling (for the class I officers and the class II officers). While sampling the respondents and administering the schedule to the selected respondents utmost care was taken to ensure objectivity.



Source : *Life Insurance Corporation of India, Annual Report, 1995-96.*

निगम की परिसम्पत्तियाँ
(31 मार्च, 1997 को स्थिती)

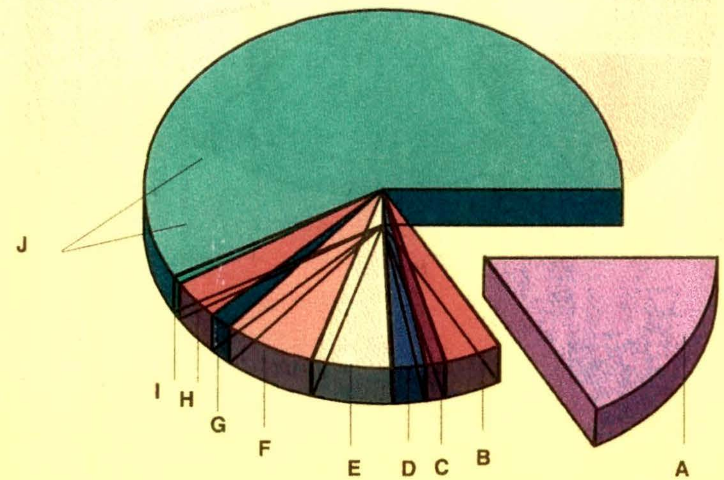
ASSETS OF THE CORPORATION
(As On 31st March, 1997)



क	राज्य परिवहन निगमों के लिए ऋण	0.29%	A	Loans to State Road Transport Corpns.	0.29%
ख	राज्य विद्युत मंडल/एन. इ.इ.पी.सी.ओ. के लिए ऋण	5.09%	B	Loans to State Electricity Boards/NEEPCO	5.09%
ग	अन्य निवेश	0.57%	C	Other Investments	0.57%
घ	अन्य परिसम्पत्तियाँ	9.61%	D	Other Assets	9.61%
ङ	आवास सम्पत्ति एवं भूमि	0.57%	E	House Property and Land	0.57%
च	जल-पुर्ति एवं मल-निकास के लिए ऋण	1.53%	F	Loans for Water Supply & Sewerage Schemes	1.53%
छ	बीमा कर्ताओं को पालिसियों पर ऋण	3.05%	G	Loans on Insurer's Policies	3.05%
ज	आवास विकास के लिए ऋण	8.46%	H	Loans for Housing Development	8.46%
झ	कारपोरेट क्षेत्र में निवेश	16.93%	I	Investments in Corporate Sector	16.93%
ञ	भारत सरकार, राज्य सरकार और अन्य प्रतिभुतियाँ भारत सरकार के साथ विशेष जमा सहित	53.90%	J	Govt. of India, State Govt. and other Securities including Special Deposits with Govt. of India	53.90%

Source : *Life Insurance Corporation of India, Annual Report, 1996-97.*

ANALYSIS OF UTILISATION OF INCOME
(Life Business)



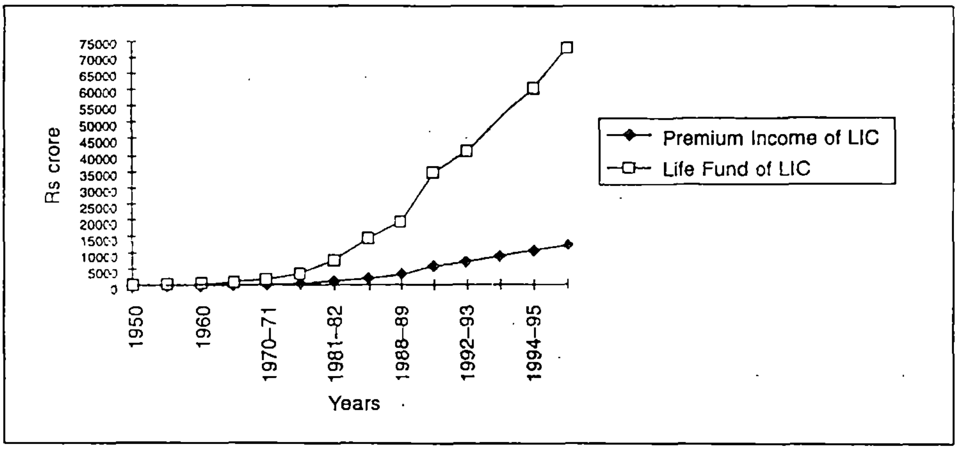
A.	Claims by maturity	16.99%
B.	Claims by Death	3.85%
C.	Annuities	1.31%
D.	Surrenders	2.13%
E.	Commission etc. to Agents	5.45%
F.	Salary & Other Benefits to employees	6.33%
G.	Other expenses of Management	1.59%
H.	Other Outgo (Taxes, Transfer to Reserves)	3.55%
I.	Government's Share of Valuation Surplus	0.73%
J.	Excess of Income over outgo added to Life Insurance Fund	58.07%

Source : *Life Insurance Corporation of India, Annual Report, 1995-96.*

Growth of Individual Life Insurance Business in India, 1960-1996 (Amount in Rs. crore ; No. in lakhs)

	New Business			Total Business in Force				
Year	No. of policies	Sum assured	Premium income (first year)	No. of policies	Sum assured	Premium income	Life fund	Total Investments
	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]
1950	4.98	139	-	-	780	41	224	227
1955	7.96	240	-	-	1128	58	300	328
1960	12.5	488	20	74.6	2176	93	520	527
1965-66	15.5	789	31	114.0	4282	175	931	962
1970-71	16.1	1216	48	146.9	6952	279	1765	1700
1975-76	20.1	2104	94	196.1	13248	543	3382	-
1981-82	21.0	3479	158	236.0	23998	1007	7514	7473
1986-87	38.7	9067	372	298.0	47906	1885	14406	13936
1988-89	59.8	17223	713	360.8	74129	2938	19450	18702
1991-92	92.4	32064	1399	508.6	145929	5946	34424	32262
1992-93	100.0	35957	1609	566.1	177268	7146	40706	38407
1993-94	107.25	41814	-	608.0	207601	8758	-	46561
1994-95	108.74	55228	2056	654.52	253333	10385	59979	56182
1995-96	110.20	51816	2332	708.78	294336	12094	72780	68276

Source : *GOI, Report of the Committee on Reforms in the Insurance Sector (*Molhota Committee), New Delhi, 1994. pp. 126-127; and LIC, *Annual Report,* various issues.



Growth of LIC Funds, **Source :** *GOI, Report of the Committee on Reforms in the Insurance Sector (*Molhota Committee), New Delhi, 1994. pp. 126-127; and LIC, *Annual Report,* various issues.