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EDITORIAL

I take this opportunity to express a hearty welcome and new year's greetings on the eve of the Bengali New Year. I wish a very very happy and prosperous new year for all of you. I sincerely acknowledge your past association and cooperation extended to me in my capacity of Executive Editor in the earlier issues of this Journal. Endless thanks are naturally due to you for maintaining the same tradition of cooperation in my new capacity. I'll be failing in my duties if I do not acknowledge the untiring efforts on the part of my predecessor, Prof. D. P. Pande, to train me up to assume this responsibility.

The Vidyasagar University Journal of Commerce, an official publication of the Department of Commerce with Farm Management of our University, makes you feel the pulse of the Department as to its commitment and dynamism to the cause of academic pursuit. It is an effective vehicle to carry the messages of new thinking, newer ideas and the newest developments. One of the important features of the Journal is the importance given to student-readers and student-contributors. A section has been earmarked for publishing write-ups 'of the students, by the students, for the students'; my special thanks to the contributors of this section in this volume.

The current issue is the eighth of the series. It contains, in all, eight articles. I convey my deep sense of gratitude to all the contributors; after all, contributors are the life-blood of any journal. These contributions have a wide coverage of the subject-areas ranging from classical topics of Productivity Management handled by Prof. Sudipti Banerjea and Industrial Sickness by Dr. Tarun Kanti Ghosh to the current and burning topics like Disinvestment jointly by Prof. Madan Mohan Maji and Dr. Dhananjoy Rakshit, Corporate Governance also jointly by Sri Partha Sarkar and Pradip Kumar Samanta, Deferred Tax by Sri Partha Pratim Ghosh, NPA Management again jointly by Sri Rabindra Nath DeDalal and Dr. Arindam Gupta, and Statutory Cost Audit by Sri Sudipta Ghosh. A very sensitive and common-to-all social issue of Economic Forces impacting upon Children has been covered by Sri Amitendu Palit.

Our constant effort to improve upon the quality of the Journal in terms of the contents, the structure and printing, depend on the feed-back from all those associated with it in any capacity. So, we invite open comments, constructive criticisms and suggestions to help us improve the quality further; it is admitted that quality has got no limit. Timely publication is another important aspect of any journal. To that end, I must thank all my colleagues in general, and (i) Dr. Arindam Gupta, the present Executive Editor, (ii) the learned Reviewers who have kindly lent their support in the process of blind review of the articles (barring those invited from eminent experts), and (iii) Dr. Jayabrata Chatterjee of M/S Computer Point for speedy handling of the printing matters, in particular. Funding support of the University authority is also acknowledged gratefully.

I believe that this Journal will be well-acclaimed by the students, teachers, researchers, planners, industry executives, professionals and the like.

Midnapore
March, 2003

Sd./ K.C.Paul
Editor-in -chief

PRODUCTIVITY MANAGEMENT IN THE COMPETITIVE ENVIRONMENT **

Sudipti Banerjea *

Background

The increasing spate of global competition has created compulsions for policy-makers of the industrial organisations to take advantage of various means that are less-readily-available to their competitors. One such important means is internally-generated productivity-improvements on a continuous basis. Alternative ways of accelerating the process of such productivity-improvements and evaluation of their progress are fast becoming a major concern of the policy-makers. In the developed world, remarkable changes have taken place during the last four decades in the matter of productivity-improvements.

During the early years of development of manufacturing industries, the top managements were basically production-oriented and their efforts were primarily concentrated on the expansion of markets through the development of production processes leading to reduced costs of emerging products. The progressive success of such efforts led to a gradual shift in the primary concern of top managements to the issues relating to marketing the increasing outputs, financing the additional production capacity and expanding the distribution systems. In course of evaluation of the resulting performance, more emphasis was put on higher sales and profits immediately and over a period of time. While pursuing such goals, the policy-makers usually tried to look beyond the immediate determinants of profitability (i.e., total revenue, total cost and total investment) to some extent only to evaluate their effects on output, product prices and total unit costs.

A Conceptual Framework

In the increasingly competitive business environment, for any given product-mix, changes in output levels and prices tend to be determined largely by external market conditions. A firm, desirous of expanding the market share and profitability

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of its products, must increasingly attempt to improve the performance of the products expected by prospective buyers relative to their costs. Thus, while attempting to widen the margin between sales revenue and costs, the firm should focus on the means to improve operational productivity and generate improvements on a continuous basis in product performance.

If the prices of inputs are determined by their respective external markets, cost reduction relating to the planned quality of any product-mix can be achieved only by reducing the relative quantities of one or more inputs (weighted by their respective prices) more than any accompanying increases in the quantities of other inputs (weighted by their respective prices). Normally, such ways of reducing product cost vis-a-vis quality are developed by research, engineering and production people. However, actions intended to generate perceptible improvements usually require substantial expenditure for, and intelligent reallocations of, resources, which basically depend on the judgement and approval of the policy-makers. This requires continuous evaluation of the current performance (both quantitative and qualitative). This also requires consideration of the proposed improvements necessitated by mounting competitive pressures as a basis for intensifying, if necessary, efforts beyond current requirements.

The most widely-used measures of change in industrial productivity so far are physical output per worker / per man-hour. These measures are very much based on the idea that changes in industrial output and costs are mainly determined by variations in man-power inputs. No doubt, such an idea is still relevant in some underdeveloped/developing economies. But that has long become irrelevant in developed economies. As a matter of fact, for many decades, wages have continued to account for less than 20% (on an average) of total costs in the manufacturing industries in the USA.

Production capabilities of industrial operations in developed economies are increasingly being determined by (i) the purchased materials utilised, (ii) the modernity and flexibility of the capital facilities and equipment employed, and (iii) the effectiveness of the technical and managerial contributions provided. Therefore, contributions of man-power need be appraised, keeping these factors in mind.

The impact of productivity-improvement not only on unit costs but also on profitability may be well appreciated by discussing, in brief, an analytical framework that connects the two through a structure of interactions between external market forces and internal efforts to improve competitiveness.

$$\frac{\text{Profit}}{\text{Total Investment}} = \frac{\text{Total Revenue}}{\text{Output}} - \frac{\text{Total Cost}}{\text{Output}} \times \frac{\text{Output}}{\text{Capacity}} \times \frac{\text{Capacity}}{\text{Fixed}} \times \frac{\text{Fixed Investment}}{\text{Total Investment}}$$

$$[\{(1) - (2)\} \times (3) \times (4) \times (5)]$$

Thus, changes in a firm's rate of profits on total investment depend on interactions among the following five variables:

(1) average unit price,

(2) average unit cost,

(3) the rate of capacity utilisation,

(4) the productivity of fixed investment, and

(5) the internal allocation of total investment between fixed assets and working capital.

The reality is that a firm's product and its output levels tend to be influenced much by external competitive pressures. Such pressures also tend to dominate changes in the prices of materials, man-power and capital inputs that represent the external determinants of changes in unit costs. Thus, managerial efforts to improve competitiveness are much likely to have their roots in the network of productivity relationships and associated adjustments in product quality. However, for most of the policy-makers in the industrial organisations, these have not been a key issue for concern mainly due to: (i) the dominant pressures of market and financial performance, and (ii) inadequate training and experience in evaluating production operations and product developments.

Thus, they need to develop more effective arrangements for making periodic evaluations of actual and potential changes in such internal operations with a view to exploring and capitalising on important sources of improvements vis-a-vis competitiveness.

Direct contributions to the network of productivity relationships may be considered as consisting of *six* linkages. *Three* of these represent the direct inputs - man-hours/output, materials volume/output, and capacity/fixed investment.* The other *three* - materials volume/man-hours, man-hours/utilized fixed investment, and materials volume/utilized fixed investment - cover any changes in the proportions in

* Fixed investment is compared with capacity rather than with output in order to differentiate between what the capital equipment can produce and the extent to which it is underutilized because of market factors.

which these inputs are combined as a result of substitutions among them and/or variations in capacity-utilization rates. This network of productivity relationships has several features that reflect the complexity of the changes to be considered.

Changes may originate in any of the *six* links, but will necessarily interact with the other links, e.g., changes in purchased material inputs may involve alterations in their composition, in their quality, etc. Their effects may include increase in unit material costs and improvement in product quality and decrease in additional production costs, especially labour. Again, the originating change may involve increase in modernisation, levels of mechanization, degree of automation or extent of specialization of processing facilities. That may affect production capacity, flexibility of product-mix, product quality, and labour input skills and levels, as well as material specifications, investment requirements and associated fixed cost levels. Again, innovations may start with increases in the skills, effectiveness and flexibility of labour. That may increase the contributions and earnings per wage-earner while reducing their number relative to output. That apart, in order to ensure effective adaptation to such changes in basic inputs, it may be necessary to increase the share of the technical and managerial man-power. That will increase the role of relatively less-flexible inputs which are not included as direct factors of production.

Again, due to the interactions within the network of productivity relationships, an observed change in any one of the *six* links need not have originated there. It may represent a more or less passive adjustment to a change initiated elsewhere, e.g., man-hours/output may be reduced as a result of the purchase of more highly fabricated materials or of more advanced machinery. Specific information about the action involved is necessary for identifying the initiating change.

Moreover, the effects of changes in any one of the *six* links on the rest of the network of productivity relationships depend on accompanying changes in capacity-utilization rates as well as on the technological characteristics of the production processes involved, e.g., further mechanization is likely to reduce both capacity utilization and the productivity of fixed investment (at least, in the short run), while increasing output per man-hour and very often decreasing output/materials volume due to requirements for higher quality material inputs.

In spite of the importance of determining the specific array of such productivity-improvements, the economic desirability of any particular combination of changes in the network of productivity relationships cannot be determined from such input-output changes alone. Determination of the effects of changes in the requirements of each input on its unit cost becomes necessary. For example, increases in demand for essentially unchanged materials or labour normally result in increases in their respective prices which may even go up further if demand is shifted to more high-quality/highly-fabricated material inputs or to more highly-skilled labour. However, wage rates also often tend to rise when the purchases of more highly fabricated materials/advanced production facilities result in increasing output/man-hour even without significant increases in labour efforts/skills.

The effect of resulting changes in each component unit cost on total unit costs depends on the proportions of total cost accounted for by each component, e.g., a 10% increase in output/man-hour with only a 5% increase in hourly wage rates would reduce unit wage costs by about 5%. But, if wages account for only 20% of total unit costs, that would tend to reduce total unit costs by only about 1%. Again, even this marginal reduction may be offset by increases in unit material costs or unit fixed costs if these were involved in the innovations which caused the increase in output/man-hour.

In view of such interactions, it is also necessary to consider cost proportions in planning productivity-improvements. In the manufacturing industries in the USA, wage costs have commonly ranged from 5% to 40% and material costs from 30% to 80% or more for decades, indicating varying impacts on total unit costs of equal percentage reductions in these major cost categories in different industries.

Observations

Most of the above-discussed changes in the network of productivity relationships and associated costs would involve significant changes in production capabilities, investment requirements and organisational responsibilities and that would require top-level managerial exercise. However, over several decades in the past, the top-level managerial personnel have continued to place too much emphasis on strengthening marketing and finance. Consequently, proposals to seek major productivity and technological - improvements continued to be side-tracked in favour of smaller and less-risky improvements. This has not only restricted the research and development programmes but has also discouraged the technical specialists to be creative. Thus, the top management may find that the technical specialists, long conditioned to focus on restricted targets, fail to develop more ambitious proposals.

The experience of most long-established industries in the developed countries during the last few decades suggests that a continuing primary emphasis on marketing and financial innovations, with less emphasis on necessary modernization of production capabilities, is likely to result in their progressive competitive decline. Long-term and unavoidably risky commitments continue to be discouraged even in most of the developed countries. The emphasis still continues to be on increasing short-term profitability in response to both external pressures from investors and self-interest of the top-level managerial personnel commonly facing retirement within a few years and going to get benefits based on profitability during their tenure.

The top management may now have to consciously initiate change in such mindset. The top management would now be required to go beyond the broad policy announcements and make direct appeal for more ambitious proposals, offer supporting resource allocations and rewards and hire additional technical specialists with proven capabilities for initiating far-reaching improvements. Meaningful support of top management is a must because substantial resources over extended periods of time are usually required even if the probabilities of only limited market benefits exist. Effective promotion of such efforts would require regular evaluations of actual and potential performance with a view to identifying shortcomings, exploring their reasons and developing remedial measures. Such evaluations may also reveal some more-than-expected improvements thus drawing the attention of the top management to the possibilities of raising some existing targets. Annual comparisons with the performance of competitors would also help long-term improvement of targets.

Regaining industrial competitiveness in international markets will demand increased modernisation, flexibility and quality capabilities of manufacturing facilities. Implications of declining industrial competitiveness for a national economy being quite serious, there is a definite need to explore means for encouraging longer-term commitments to industrial productivity-improvements through possible modifications in reward systems for top-level managerial personnel as well as in tax and other governmental policies.

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DISINVESTMENT IN PSUs IN INDIA-AN ANALYSIS

Madan Mohan Maji and Dhananjoy Rakshit***

Privatisation has emerged as a major public policy in many countries of the world. As per the United Nation's Report on the world situation, the policy of privatization of Public Sector Enterprises (PSEs) has been adopted in UK, France, Italy, Japan, Netherlands, Spain, Greece, Portugal, Korea, Bangladesh, Pakistan, Malaysia, Taiwan, Brazil and a number of countries. India has joined the league since 1991 as a part of the process of economic liberalization and public sector reforms. The Government has started disinvestment of Public Sector Units (PSUs) in 1991-92 and now it is an ongoing process.

The present article deals with the up to date scenario of disinvestments in PSU in our country. The study has been divided into 10 parts under the heads (1) Objectives of disinvestments, (2) Brief history of disinvestment in PSUs, (3) Various committee's - recommendations for restructuring of PSUs, (4) Year-wise targets and actuals, (5) Position of Government-holding after disinvestments, (6) Latest views of the Government regarding disinvestment, (7) Procedural aspects and time frame, (8) Observations on valuation matters, (9) Performance of listed PSUs and (10) Conclusion. In the earlier parts before conclusion, necessary analysis have been made in appropriate places. And in conclusion, remarks have been made on the success/ failure of the Government in the concerned area and some suggestions have also been given for restructuring and divesting of PSUs in better ways.

Objectives Of Disinvestments

The main objectives of disinvestments of government holding of equity in PSUs are as follows:

(i) To mobilize sufficient resources for government requirements.

(ii) To mobilize revenue for bringing down fiscal deficit of the Government.

(iii) To provide an opportunity to general public to trade PSU equities in the stock exchanges.

(iv) To make the PSUs competitive with their counterparts both at national and international level.

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(v) To improve efficiency of the PSUs.

(vi) To revive the sick units through competitive environment.

(vii) To encourage and motivate employee ownership.

(viii) To reduce bureaucratic control and to provide more autonomy to the management of PSUs.

Brief History Of Disinvestment Of PSUs

Before independence there was virtually no public sector unit in our country. After independence, for more than a period of forty years there had been an emphasis on the part of the Government to set up more and more public sector units. Here is given below a table showing the growth of Central Government enterprises during the post independence period up to 1998.

Table No. 1

Growth of Central PSUs in India

Year ended 31st March	No. of units	Total investment (Rs. in crore)
1951	5	29
1961	47	950
1980	179	18,150
1990	244	99,930
1998	243	2,04,050

Source: Indian Journal of Commerce, Vol. 54, No. 4, Oct.-Dec., 2001, P.93

The above table shows that the number of PSUs had increased from 5 in 1950-51 to 244 in the year 1989-90 and then decreased to 243 in 1997-98. Capital investment by the Government has increased from Rs. 29 crore as on 31st March, 1951 to Rs. 2,04,050 crore at the end of 1997-98.

Since 1991 there has been a drastic change in the views of the Government regarding PSUs and this has been expressed in the policy of public sector reforms by the Government announced in New Industrial Policy of July, 1991. Actually the disinvestment of PSUs has started as a part of commitment made by the Government of India to the IMF. The Government submitted a detailed memorandum on economic policies to the IMF in December, 1991 and this memorandum included the government commitment on disinvestments. In August, 1996 the Government of India set up a non-statutory advisory body named the Disinvestment Commission to advise the strategy, extent, methodology, timing and pricing of disinvestments deals of the public enterprises. The Disinvestment Commission recommended disinvestments through trade sale in 8 PSUs (ITDC, MFIL, HCIL, R-ASHOK, U-ASHOK, PHL, SIIL and MSSTC), through strategic sale in 29 PSUs (HTL, ITI, BALCO, BRPL, KOOCL, MFL, EIL, HPL, IBP, NEPA, HZL, PPCL, NFL, FACT, IPCL, HCL, SCI, HLL, AI, HSCL, STC, MMTC, PPL, MECON, HIL, HOC, RCF, RNL and BHEL), offer of shares through GDR and domestic route in 5 PSUs (GAIL, CONCOR, MTNL, NALCO and NMDC) and it recommended deferred disinvestments in 11 PSUs (OIL, ONGC, MOIL, NTPC, NHPC, POWER GRID, NLC, SAIL, CEL, PEC and MECL). The Commission also recommended closure/sale of assets in 4 PSUs (EPIL, ET&T, HVOC and RICL) and no disinvestment in one PSU (RITES). The total number of these companies (for which the Disinvestment Commission made recommendations) is 58.

On December 10, 1999 a special government department named the Department of Disinvestments was constituted as a nodal department to streamline and expedite the whole process of disinvestments and to implement disinvestment decisions and recommendations of the Disinvestments Commission. This department is responsible for all matters regarding disinvestments in PSUs, including the decisions on the modalities of disinvestments.

An independent ministry for disinvestments with a Cabinet Minister was set up in December, 1999. Now Mr. Arun Shourie is the Disinvestment Minister.

Various Committee Recommendations For Restructuring Of PSUs

Arjun Sengupta Committee (1984): The committee recommended not to sell shares of PSUs and to close down loss making units. The committee also recommended holding company form of organizational structure for restructuring of PSUs.

Abid Hussain Committee (1989): The committee recommended for raising resources from the capital market for the PSUs. The committee also recommended to sell not more than 25% of total equity shares and to sell equity to mutual funds.

Standing Committee of Government Secretaries (1990): The major recommendations of the committee include sale of public enterprises to the private sector and merger with giant public sector units.

Ranga Rajan Committee (1993): This committee on disinvestments, while recommending the limits on the percentage of equity to be disinvested has recommended even for 100% disinvestments of government stake in non-strategic and non-core sectors. It is relevant to mention here that for privatization the Government of India has classified PSUs into four categories viz., strategic, core, non-strategic and non-core. Here strategic sector includes defence, arms and ammunition. Regarding the models of disinvestments, the Committee has recommended three models viz. (1) offering shares to public at a fixed price (variable from company to company), (2) sale through auction amongst the pre-determined clientele and (3) transfer of controlling interest in an enterprise to a specific firm or person. Target clientele should include mutual funds, financial institutions, merchant bankers, brokers, employees of the company, resident individuals and NRIs including foreign investors.

Year Wise Disinvestment Targets And Actuals

The following table shows the picture of year-wise target receipts and actual receipts from disinvestments of PSU shares during the period from 1991-92 to 2002-03.

Tale No. 2

Disinvestment Targets & Actuals

Year	No. of PSUs Dis-invested	Target Receipt (Rs. in crore)	Actual Receipt (Rs. in crore)	Diver-gence	Methodology of disinvestment
1991-92	47	2500	3038	+538	Minority shares sold by auction method in bundles of "very good", "good", and "average" companies.
1992-93	35	2500	1913	–587	Bundling of shares abandoned. Shares sold separately for each company.
1993-94	–	3500	NIL	–3500	Equity of 7 companies sold by open auction but proceeds received in 94-95.

1994-95	13	4000	4843	+843	Sale through auction method, in which NRIs and other persons legally permitted to buy, hold or sell equity, allowed to participate.
1996-97	01	5000	380	–4620	GDR (VSNL) in international market and Domestic Offerings with the participation of FIIs.
1997-98	01	4800	902	–3898	GDR (MTNL) in international market and Domestic offerings with the participation of FIIs.
1998-99	05	5000	5371	+371	GDR (VSNL)/domestic offerings with the participation of FIIs (CONCOR, GAIL). Cross purchases by 3 oil sector companies i.e. GAIL, ONGC & IOC.
1999-2000	03	10,000	1584	–8416	GDR for GAIL in international market & MFIL's strategic sale. and domestic issue for VSNL.
2000-01	03	10000	1868	–8132	BALCO, KRL(CRL) & MRL through strategic sale/acquisition.
2001-02	-	12000	5000	–7000	IBP, VSNL, HTL, Paradeep Phosphate.
2002-03	-	12000	NA	NA	Hindustan Zinc.
Total	42*	78300 (66300 up to 2001-02)	25261	41039	

***Note- Total of the column would not tally with the number of PSUs disinvested, as in most of the cases disinvestments have taken place in a number of phases spread over different years.**

Source: Website of Department of Disinvestments.

The above table shows that during the period from 1991-92 to 2001-02 the government could realize only Rs. 25261 crore as against target receipts Rs. 66300, representing 38.1% of the budgeted amount. Target receipt for the year 2002-03 is

Rs. 12000 crore and as per the news published in the Ananda Bazar Patrika dated December 25,2002 quoting the Disinvestment Minister's statement that the Government has been able to procure Rs. 3350 crore only towards this till date in view of the virtual derailment of the privitization process in recent months. The figures for year-wise divergence show that only in the years 1991-92, 1994-95 and 1998-99 the actual receipt exceeded the target and in the remaining years actual receipt is significantly lower than target receipt. In these years, the Government failed to raise the budgeted estimates of disinvestment receipts and one of the important reasons is the non-acceptability of PSU shares in capital market due to lackluster market condition.

POSITION OF GOVERNMENT HOLDING AFTER DISINVESTMENT

Till now disinvestments of PSU shares have taken place in 42 companies. So far data is available, a table is given below to show the position of government holding in percentage after disinvestments of shares in 40 PSUs as on March 31, 2000.

Table No. 3

Disinvestment in Central PSUs on 31.3.2000

Sl. No.	Name of the PSU	Total disinvested	Percentage of government holding after disinvestment
01	Abdrew Yule & Col. Ltd.	9.60	62.84*
02	Bharat Earth Movers Ltd.	39.19	60.81
03	Bharat Electronics Ltd.	24.14	75.86
04	Bharat Petrolium Corpn.	33.80	66.20
05	Bharat Heavy Electricals Ltd.	32.28	67:72
06	Bongaigaon Refineries Ltd.	25.54	74.46
07	CMC Ltd.	16.69	83.31
08	Container Corp. of India Ltd.	37.00	63.00
09	Dredging Corpn. of India Ltd.	1.44	98.56
10	Engineers India Ltd.	5.98	94.02
11	Fert & Chem. (Travancore) Ltd.	1.70	97.30*
12	Gas Authority of India Ltd.	32.66	67.34
13	HMT	8.44	91.56
14	Hindustan Cables Ltd.	1.04	98.96

Sl. No.	Name of the PSU	Total disinvested	Percentage of government holding after disinvestment
15	Hindustan Copper Ltd.	1.24	98.76
16	Hindustan Organic Chemical Ltd.	41.39	58.61
17	Hindustan Petroleum Ltd.	48.94	51.06
18	Hindustan Photofilms Mft. Co. Ltd.	9.87	90.13
19	Hindustan Zinc Ltd.	24.08	75.92
20	Indian Oil Corpn.	17.85	82.15
21	Indian Petro Chemicals Corp. Ltd.	40.05	59.95
22	IRCON (India) Ltd.	0.27	99.73
23	Indian Telephone Industries Ltd.	22.98	76.67*
24	Indian tourism & Dev. Ltd.	10.03	89.97
25	Kudremukh Iron & Ore Co. Ltd.	1.00	99.00
26	Kochin Refineries Ltd.	6.12	55.04*
27	Madras Refineries Ltd.	16.92	53.80*
28	Mahanagar Telephone Nigam Ltd.	43.80	56.20
29	Minerals & Metals Trading Corpn.	0.67	99.33
30	National Aluminum Corpn. Ltd.	12.85	87.15
31	National Fertilizers Ltd.	2.35	97.65
32	National Mineral Dev. Corpn. Ltd.	1.62	96.36*
33	Neyvelii Lignite Corpn. Ltd.	6.01	93.99
34	ONGC	16.36	83.64
35	Rashtriya Chemicals & Fert. Ltd.	7.50	92.50
36	Shipping Corpn.	19.88	80.12
37	STC	8.97	91.03
38	SAIL	14.18	85.82
39	VSNL	47.04	52.96
40	Modern Food Industries Ltd.	74.00	26.00

Source: Website-Department of Disinvestments.

*** The Balance equity is held by strategic partners.**

It is seen that disinvestment percentage is minimum at 0.27 in IRCON (India) Ltd. and it is maximum at 74 in Modern Food Industries Ltd. Excepting Modern Food Industries, all other units, after latest desinvestment, still now happen to be

PSUs with government holding more than 51%. Another company, Lubrizol India Ltd. has also ceased to be PSU after disinvestment and data for this company is not given in the above table.

Disinvestment And Latest Views Of The Government

The Government wants to retain full control in strategic sector like defence, arms and ammunition, and in core sector dominant holding. Thus, in these two sectors government stake in PSUs will vary between 51% to 100%. In the non-strategic and non-core sectors, the Government will go for radical disinvestments upto 74% of equity. The main elements of government policy towards PSUs as enshrined in the Economic Survey for the year 2000-01 are as follows:

1. Bring down government stake in all non-strategic PSUs to 26% or lower if necessary.
2. Restructure and revive potentially viable PSUs.
3. Close down PSUs which can not be revived.
4. Fully protect the interest of the workers.

The budget speech of the Finance Minister (Part A, Paragraph 92) for the years 2002-03 under the heading 'Privatisation' is quoted below:

"With the streamlined procedure for disinvestments and privatization, I am happy to report that the Government has now completed strategic sales in 7 public sector companies and some hotel properties of the Hotel Corporation of India (HCI) and the Indian Tourism Development Corporation (ITDC). The change in approach from the disinvestments of small lots of shares to strategic sales of blocks of shares to strategic investors has improved the price earning ratios obtained. We expect to complete the disinvestments in another 6 companies and the remaining hotels in HCI and ITDC this year."

Government commitment on disinvestments is reflected in a statement made by the Finance Minister at a joint press conference with the US Treasury Secretary, Mr. Paul O Neil on November 22, 2002 after a meeting of the G-20 deputies in New Delhi. The Finance Minister said, "The Government is committed to the disinvestment programme as an integral process of going forward on its reform schedule". He said, "We believe in private enterprise and value of individual". He also said the Government has to be the ultimate risk taker.

[Source: Business Standard, 23 Nov. 2002]

As per a recent statement made by the Disinvestment Minister, Mr. Arun Shourie the Government is at present proceeding towards disinvestment in 54 cases and all efforts are being made to complete the procedural requirements to finalise these cases. He said, a target of Rs. 78000 crore has been set for disinvestment over the Tenth Plan period. Of the forthcoming two mega disinvestments HPCL and BPCL the Government will go for sale of shares alongwith control of management (i.e. strategic sale) in the case of HPCL but right now the same decision will not be taken for BPCL. In the case of BPCL, shares will be issued in the market.

[Source: Anandabazar Patrika, 25 Nov. 2002 and Statesman, 26 Nov. 2002]

According to the disinvestment ministry note circulated among different ministries, the Government will retain 26 per cent equity in both the petroleum companies (HPCL and BPCL) after divestment. At present, the Government holds 51 per cent stake in HPCL and 66 per cent stake in BPCL. The disinvestment ministry has suggested offloading 23 per cent government equity in Hindustan Petroleum Corporation Limited (HPCL) to a strategic partner while divesting 37 per cent in Bharat Petroleum Corporation Limited (BPCL) in the markets through IPO (Initial Public Offering). In addition, about 2 per cent equity in HPCL and 3 per cent equity in BPCL will be offered to the employees, according to the disinvestment ministry proposal. The Cabinet Committee on Disinvestment (CCD) is the authority to decide finally on the issues of sell-off modalities and the extent of equity dilution of these two petroleum companies. The meeting of the CCD scheduled to hold on December 27, 2002 could not arrive at a decision on the privatisation of these two companies because the Attorney General is yet to submit his opinion on the Nationalisation Act. It is relevant to mention here that the Opposition in Parliament has compelled the Government to seek the Attorney General's response to the legal aspects of disinvestment in companies acquired through Act of Parliament. The Opposition contended that the Government could not sell HPCL and BPCL because the two companies had been acquired by the Government through Act of Parliament and the disinvestment ministry had argued that a subsequent Companies Act nullified this Act.

[Source: The Economic Times, December 18, 25 & 28, 2002]

As per the statement made by the Civil Aviation Ministry on 11th December, 2002 in New Delhi, there would be no disinvestment of Air India and Indian Airlines in the near future and the joint venture route is being taken to privatise four metro airports in Delhi, Mumbai, Kolkata and Chennai. Further, as per PTI reports, the Centre will privatise state-run Engineers India Limited this fiscal with the disinvestment ministry withdrawing its reservation on selling the project consultancy firm. The Disinvestment Commission said on 10th December 2002 that it had already begun preliminary work on submitting proposals for offloading government equity in as many as 12 PSUs including MTNL.

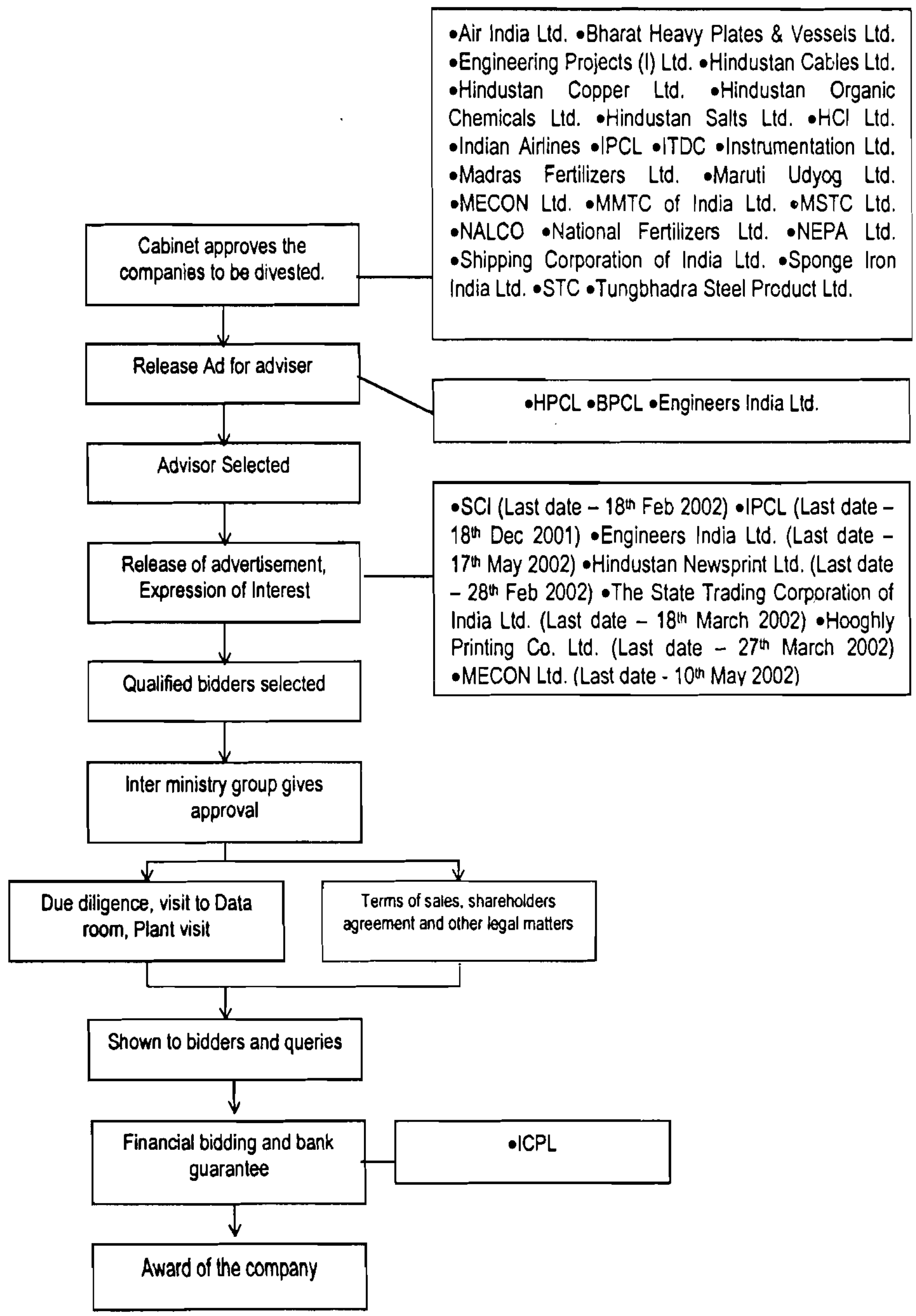
[Source: The Statesman, December 12, 2002]

The past history suggests that disinvestments is a time-consuming process. For any disinvestment to take place, it should normally take 6-18 months from the date of selection of global advisers (who will handle the minutest of details of the sale). But due to various reasons, disinvestments have taken lot of time in the past. The first PSU disinvestments, Modern Food Industries, took near about two and half years before it was sold to Hindustan Lever. In the case of BALCO, the disinvestment process dragged along for more than three years. In the case of CMC it took more than one and half years. While HTL disinvestment took more than 3 years.

PROCEDURAL ASPECTS AND TIME FRAME

Here is a flow chart which shows the disinvestment process and stage at which various PSUs are.

DIVESTMENT PROCESS & STAGE AT WHICH VARIOUS PSUS ARE



Let us now discuss the matter of time frame and other incidental issues for the forthcoming disinvestment candidates. In plenty of companies, even financial advisors have not been appointed till now. This means that the basic work for disinvestment has not been initiated. And there are no target time frames for these companies. Whether these companies would actually be divested in the immediate future, itself is not known. Further, there are a good number of companies for which there may not be buyers, as these companies may not have right technology or may have excess manpower. And the bidders before taking any company would ensure that it has right technology and it is rightly downsized. And the consequential effect is that the Government will not appoint financial advisers unless it brings the divestment candidate house under order. In consequence, the whole process of disinvestment will be delayed. In companies like SAIL no one would be interested to buy unless Government reduces its equity to a manageable level from its present level of Rs. 4130 crore. In some of the cases, Plant and Machinery are so archaic that they would not be worth taking over. Neyveli Lignite may not be disinvested in next 24 months as one of the preconditions before the sale, as per the Disinvestment Commission Report of January, 2002, is the power reforms. So divestment of this company would like place only if the power reforms are first taken care of. Like Neyveli Lignite, many PSUs may not get divested in next 24 months.

Right now two mega divestments are HPCL and BPCL and both the divestments are not expected before October, 2003. The Cabinet Committee on Disinvestment (CCD) in its meeting on December 27, 2002 could not arrive at a decision on the privatization of these two companies. The stake sale of the aluminium major Nalco is already delayed, and as per the report of the senior officials of the ministry of disinvestments published in the Business Standard dated 14th November 2002, except for the plant visit by prospective bidders everything else is on course and the company will be filing the relevant documents with appropriate authorities by December 2002. The Government has planned to pare its current holding of 87.19 per cent to 57.19 percent (i.e. divestment of 30% shares) through IPO and ADR (American Depository Receipts) routes, and subsequently to dilute another 29.15 per cent by selling equity to a strategic investor. Presently, for divesting 30% shares, Nalco would file the prospectus for a domestic issue, for up to 10% of equity, with the SEBI, and the relevant documents for 20% ADR issue, with the Securities Exchange Commission of the US by December 2002.

Performance Of Listed PSUs

The following table shows the performance of the major PSUs which are listed on the stock exchanges. Here results for the year ended 31st March, 2002 and net profit for the half-year ended 30th September, 2002 in respect of 35 listed PSUs have been shown at a glance.

Table - 4

Results of Major Listed PSUs

Name of the Company	Results for the Year ended 31.03.2002						
	Face Value (Rs.)	Equity Cap (Rs. Cr.)	Book Value (Rs.)	Net profit (Rs. Cr.)	Div %	EPS (Rs.)	Net profit for half year ended 30.9.02
Andrew Yule	10	54.0	4.9	-48.2	0	-8.9	-21.3
BHEL	10	244.8	182.6	149.9	40	8.0	59.6
BPCL	10	300.0	133.2	849.8	110	28.3	569.6
Balmar Lawrie	10	16.3	94.1	8.0	18	4.9	7.7
Bh. Earth Mov.	10	36.9	181.8	5.4	12	1.5	-9.9
Bh. Immun & Bio.	10	25.4	-11.8	-7.0	0	-2.8	-5.3*
Bharat Electronic	10	80.0	102.3	199.7	50	25.0	73.1
Bongaigaon Ref.	10	199.8	15.3	-198.6	0	-9.9	63.0
Chennai Petro.	10	149.0	70.6	63.9	20	4.3	31.5
Container Corp.	10	65.0	139.9	249.9	100	38.4	140.4
Dredging Corp.	10	28.0	184.7	116.1	75	41.5	60.4
Engineers India	10	56.2	126.9	17.5	28	3.1	23.7
Fert & Chem.	10	354.8	11.8	0.9	0	0.02	-127.4
GAIL	10	845.7	63.1	1185.8	45	14.0	716.7
HMT	10	468.2	2.1	10.2	0	0.2	-36.8
HPCL	10	338.8	174.1	788.0	100	23.3	572.6
Hind. Org. Chem.	10	67.3	23.1	-59.3	0	-8.8	-12.5
Hind. Zinc	10	422.5	25.3	68.0	5	1.6	31.1*
IBP	10	22.1	201.4	195.8	100	88.4	48.4
ITI	10	88.0	33.8	21.6	5	2.5	-142.2

Name of the Company	Results for the Year ended 31.03.2002						
	Face Value (Rs.)	Equity Cap (Rs. Cr.)	Book Value (Rs.)	Net profit (Rs. Cr.)	Div %	EPS (Rs.)	Net profit for half year ended 30.9.02
Indian Oil Corp.	10	778.7	196.6	2884.7	110	37.0	3138.7
Kochi Ref.	10	138.5	82.2	69.3	22	5.0	138.4
LIC Hsg. Fin.	10	75.0	98.5	147.7	50	19.7	62.8
MTNL	10	630.0	141.9	1300.7	45	20.6	496.8
Madras Fert.	10	161.1	-3.3	-143.8	0	-8.9	-12.8
NALCO	10	644.3	50.1	409.4	40	6.4	217.7
National Fert.	10	490.6	22.3	48.2	20	1.0	188.9
Neyveli Lign.	10	1677.7	30.3	801.7	14	4.8	362.5
ONGC	10	1425.9	208.4	6192.3	140	43.4	4257.4
RCF	10	551.7	22.4	5.8	2	0.1	-133.2
SAIL	10	4130.4	6.9	-1696.4	0	-4.1	-467.2
STC India	10	30.0	152.8	11.1	0	3.7	-29.5
Shipp. Corp.	10	282.3	86.7	241.6	0	8.6	71.1
Tamil Tele	10	22.7	10.8	0.4	0	0.2	-9.2
VSNL	10	285.0	177.0	1407.4	375	49.4	510.9

Source:

(1) Data Bank, published in Dalal Street, November 17, 2002 for yearly results.

(2) Dalal Street, November 17, 2002 and The Economic Times, November 27, 2002 for Net Profit for half year ended 30.9.02.

* Net Profit for quarter ended 30.06.02 (Result for half-year ended 30.09.02 is not available).

It is seen that on the basis of the yearly results for the year ended 31st March, 2002 out of above 35 listed PSUs 29 companies are profit making and 6 companies are loss making. For these profit making companies, earning per share (EPS) is minimum at 0.02 in the case of Fertiliser & chemical and maximum at 88.4 in the case of IBP. The number of companies having positive EPS up to Rs. 5 is 14 and such number of companies with EPS above Rs. 5 but up to Rs. 10 is 3. The number companies having EPS above Rs. 10 but up to Rs. 25 is 5 and there are 7 companies whose EPS is more than Rs. 25. Book Value is negative in respect of 2 companies and it is positive but below the face value in 3 cases and it is above the face value (which is a good indication for the company) in 30 cases. It is a heartening news that book value has exceeded ten times the face (i.e. more than Rs. 100) in 14 cases out of total 29 profit making companies. 24 companies are dividend paying and of them 7 have paid handsome dividend of 100 per cent or even more and dividend pay out is maximum at 375 per cent in the case of VSNL.

On the basis of the latest half-yearly results for the half year ended 30th September, 2002 the number of loss making companies have increased from 6 (as per last year's results) to 12. In this half-yearly results, while compared with latest yearly results, another interesting observation is that the number of companies entering from black to red (i.e. profit to loss) is 7 and number of reverse cases (i.e. from loss to profit) is one (Bongaigaon Refinery).

Observation On Valuation Matters

It is observed that most of the companies which have been divested till now have always got more than 30% above reserve price. Most of the reserve prices for disinvestment of PSU shares have been fixed based on discounted cash flow (DCF) method. For example, reserve price for CMC was pegged at Rs. 108.88 crore for 51 per cent stake but Tata Group paid Rs. 152 crore for the same, resulting 40.72 per cent premium above reserve price. In the case of HTL, reserve price for 74 per cent stake was Rs. 38.80 crore and the same was taken over by Himachal Futuristic who paid Rs. 55 crore and this is 41.75 per cent higher than reserve price. Even Hindustan Zinc, a company which once got offer price less than reserve price of Rs. 32.15 per share, has ultimately gone to Sterlite Industries for Rs. 40.50 per share and here premium over reserve price works out at 25.97 percent.

From the above facts and figures it can be said that the bidders are willing to pay higher prices to acquire good companies. It is interesting to note that till now only good and well managed companies have been able to attract the bidders. We have seen how the shares in Paradeep Phosphate were sold below the reserve price as in this case the Government found it difficult to find buyers at reserve price.

Another interesting observation is that present market prices of PSUs are much lower than prices at which PSUs have been disinvested. The only exception is in the case of CMC where the price of divested share had shot up from Rs. 196 (disinvested price) to Rs. 505 as on 31st December, 2002 on BSE. The per share price of IPCL has gone down from Rs. 231 (at disinvestment) to Rs. 78 as on 31st December, 2002. Similarly, the VSNL share price had gone down from Rs. 202 (at disinvestment) to Rs. 98, IBP from Rs. 1551 to Rs. 237 as on the same day. The bad condition of the capital market prevailing for a long period in all the stock exchanges is the main reason for such fall in prices. At what price divestment would take place for a particular company is quite an unknown factor. Had it been known, many of the bidders would not have paid so much premium even though they were the only bidders in some of the companies. From the past experience, we feel that premium over reserve price for the forthcoming disinvestment cases would not be in the region of 30% or 40%, as the prospective bidders would suitably adjust their offer prices on the basis of previous reserve price experience. But the fact is, all depends upon the need and eagerness of the bidders to acquire the company. We have seen how aggressively Indian Oil Corporation (IOC) bidded for IBP shares as it was very urgent for IOC to acquire marketing outlets of IBP so that IOC could sell its refinery products. It is fact that IOC had outbid a top foreign player like Royal Dutch Shell for control of IBP. But in this deal, critics have been saying that the sale is like transferring money from one government pocket to another. Another interesting matter is the sale of 25 per cent equity in VSNL. This sale, to a Tata Group Company, Panatone, could fetch the Government Rs. 1439 crore as bid price. In this deal, Tatas outbid Reliance. As against the Tatas' bid of Rs. 1439 crore, Reliance had put in an offer of Rs. 1349.62 crore. The Government had fixed a reserve price of Rs. 1218.37 crore for the deal. Tatas will have to make an open offer for acquiring 20 percent floating shares of VSNL.

Right now two mega disinvestments candidates are Hindustan Petrolium (HPCL) and Bharat Petrolium (BPCL) when these two are on the way of privatization shortly after dismantling of the administered price mechanism. The Government has decided to offload shares to a strategic investor in the case of HPCL and to issue shares through public offering in the case of BPCL. There is high possibility that two companies, namely, Reliance Industries and a foreign player, Royal Dutch Shell could bid aggressively for HPCL divestment. Reliance Industries with its refinery capacity of 27 million tones may go aggressively as it needs marketing outlet, while shell wants to establish its presence in the country but is not interested in the refinery capacity. Any other PSU even IOC can also take part in bidding for this government-owned oil company (i.e. HPCL), and the only condition imposed recently by the Government for this (Source: Ananda Bazar Patrika, 31.10.2002) is that they can do so only with their own money and not with the help of borrowed money. Further, talks in the capital market suggest that ONGC and GAIL may also bid aggressively for HPCL mega disinvestment. Possible other contenders are Essar, Kuwait Petro and Petronas. So now it is not very clear at what price HPCL would be disinvested and how much price BPCL would fetch the Government from the market. But once thing is clear that only these two big companies (HPCL and BPCL) can create curiosity in the market and can help the Government to raise Rs. 12000 Crore or even more, while most of the other stocks, waiting for disinvestments will not be able to fetch big sum for the Government.

Conclusion

The opening up of the previous closed sectors like power, telecom, insurance and other non-strategic units to private sector is a move in the right direction. This will infuse competition and efficiency among the concerned PSUs, and upgrade quality of products and services offered by them for better consumer satisfaction. The analysis of the study also reveals that the till date (up to date) position of public sector disinvestments are not impressive. During the period of last 11 years of reform, divestments have been completed in 6 PSUs, though the total number of disinvestment candidates is 42 at present and other 12 companies are on the agenda of the Government for divestment. The implementation of disinvestment decisions is still pending in a large number of important PSUs. Lack of political consensus at parliament level is one of the major reasons for this situation.

However, the following suggestions may be helpful for restructuring and divesting of PSUs in better ways.

(1) The timing of disinvestments is an important matter for realizing a good bid price. Considering the common phenomenon of prolonged lackluster condition of the Indian Stock Market there should not be any rigid time frame for any disinvestment programme. And Government should take sufficient steps to revive the investors's confidence in the market and to boost the market.

(2) Regarding disinvestment programme, efforts should be made on the part of the Government to enthusiasm among the financial institutions and mutual funds about PSU shares (though they know all these very well) so that they are also encouraged to bid for the same.

(3) While divesting shares of PSUs, the method of share valuation should be scientific. In the case of first time disinvestment in a PSU, revaluations of assets and potential business prospect in the concerned area should be given due considerations. In the case of subsequent disinvestment of shares in listed PSUs (i.e. whose shares have already been divested), revaluation of assets and book value of existing shares should be considered while fixing the reserve price for the disinvestment. In no case disinvestment would be made at a price below the book value of the shares. For example, IPCL's next disinvestments price must not be less than the book value Rs. 113.50 per share (as per financial results of the company for the year 2001-02), though presently its market price is hovering around Rs. 85. Similarly, Shipping Corporation of India shares must not be divested below the book value Rs. 86.70 per share, though the same is currently changing hands in the market around Rs. 58 per share.

(4) Chronically sick and potentially non-viable PSUs should be closed down and their assets should be transferred to the Asset Management Companies for getting right prices for the assets.

(5) Disinvestment and privatization should be on a large scale in all non-core sectors and other sectors excepting the companies related to the defence and security of the country.

(6) Part privatization is no remedy for re-structuring ping the public enterprises and only the complete privatization may produce better results.

(7) Possibility of mergers and amalgamations among small PSUs operating in related lines should also be explored to achieve scale economics.

(8) Transparency in disinvestment process is need of the hour to make the disinvestment deals free from criticism both at public and political level.

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A CRITICAL ANALYSIS OF ECONOMIC VIABILITY OF NISCO-DIAGNOSIS & PRESCRIPTION

Tarun Kanti Ghosh*

Introduction

The problem of industrial sickness has assumed serious proportions. On the other hand, the compounding growth of industrial sickness has seriously affected the profitability of the banking system with high proportion of non-performing assets. Substantial amount of loanable funds of banks and financial institutions has been locked up in sick industrial units of various size groups and lines of activities. Huge investment made over time in these units have yielded no or little returns and have affected the performance of the industrial sector in the state as a whole.

The rate of industrial growth has been lower than possible, employment has shrunk, production has been lower than usual and this has caused widespread labour unrest, export has fallen and markets have been afflicted by high prices due to shortages. Besides, the blocking of investible funds of financial institution leads to dropping of velocity of circulation and fall of savings. This has caused not only wastage of scarce resources but also affected the healthy growth of the state economy.

The following tables offer the details of sick units and outstanding bank credits.

Table - 1

Table showing number of sick/weak units and outstanding bank credit

Year ended on	Total Units	Weak Units	
		Number	Outstanding Loans (Rs. in Crores)
31.3.88	52	15	580.36
31.3.89	53	17	1241.69
31.3.90	54	20	1402.10
31.3.91	57	18	1616.29
31.3.92	61	24	1651.27
31.3.93	63	29	1704.49
31.3.94	63	32	1971.91
31.3.95	60	33	1822.44
31.3.96	61	37	1838.04
31.3.97	60	37	1838.04

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Table-2

Table showing the amount of Paid-up Capital, Profit earned during the year, Loss incurred during the year as well as Cumulative amount of loss by the State Level Public Enterprises in West Bengal

(Rs. in Crores)

Year ended on	Paid-up Capital	Profits for the year	Loss for the Year	Amount of Cumulative Loss
31.3.1988	278.88	0.44	239.98	239.98
31.3.1989	356.19	0.36	83.95	323.93
31.3.1990	521.21	10.59	57.45	381.38
31.3.1991	686.64	32.51	52.40	433.78
31.3.1992	779.39	75.69	56.96	490.74
31.3.1993	825.59	101.41	119.41	610.15
31.3.1994	926.12	8.28	45.93	656.08
31.3.1995	1409.54	25.45	147.32	803.40
31.3.1996	1600.25	32.33	(36.30)	767.10
31.3.1997	1553.81	17.92	134.59	901.69

Source: Report of the Comptroller and Auditor General of India (Commercial), Government of West Bengal

Background

The erstwhile National Iron & Steel Co. Ltd. was incorporate in the year 1934 at Belur Howrah, as an integrated mini-steel plant having facilities for Steel Melting, Rolling Mill, Founder Shop and Machine Shop. It was one of the beginning of 1967 when it was under the private management. On account of mismanagement and strained relation with the workforce, the company faced first closure in the late part of 1967. From 1969 to 1976 it was under the management of M/s Grand Smithy & Co. and Garden Reach Workshop in two separate phases. In the year 1979 the unit was taken over under I.D.&R. Act and the Government of West Bengal was appointed as authorised agency of the company for revival. The company was then nationalised in December 1984 and the present company under the name and style of National

Iron & Steel Co. (NISCO) (1984) Ltd. was incorporated under the Companies Act, 1956.

The Main Objectives of the Company

These are : To carry on manufacture, trade or business of smelters, iron founders, steel castings, rolled materials, etc.;

To carry on business of dealers in ships, steam ships, and any other vessels and of ship-scrapping; and

To reconstruct and rehabilitate the undertakings of the National Iron and Steel Company Limited so as to subserve the interest of the general public and augmentation of production and distribution of the aforesaid articles which are essential to the needs of general public.

Research Gap

The analysis of sickness of companies is restricted to unit-wise analysis and discovering the hidden causes. The study is also aimed at evaluating effectiveness of nursing plan. The earlier studies did not specifically seek to explore the reasons for sickness in the long term operations of some of the government companies. As a result, instead of revival, the sickness becomes chronic. No systematic approach is made to counter this chronic illness. This is a gap that calls for a detailed study.

Objectives of the Study

A cursory glance of Tables 1 and 2 reveals that there has been growing ailments of the units over a period from 1988 to 1997. The nature and dimension of ailments have thus been a serious concern and need a close scrutiny from both diagnostic and prognostic points of view. The present study makes an attempt to explore the issues involved and the possible ways to revive the unit back to healthy state.

Hypothesis

At the outset of embarking on a detailed study in this regard, we hypothesise that the corporate culture plays a dominant role in the life-span of any corporate entity. It is this aspect that controls the inner disorder of the company. Any dysfunctional culture would lead to sickness, while a dynamic culture would lead to growth.

Collection of Data

The details of financial performance, necessary for the present were collected from the published financial statements, viz. the Profit and Loss Account, Balance Sheet, Directors' Report, etc. The particulars pertaining to other affairs of the units were collected through extensive interviews with the members of the Board, the Company Secretary, Financial and Marketing Officials, positioned at various levels of management, the representatives of Labour Unions and Plant Supervisors, Shop Floor Workers and Managers. The interviews were structured and informally oriented. In addition, information was also sought and obtained from different secondary sources like 'Economic Review' presented to the State Assembly by the State Finance Minister, the report of the Comptroller and Auditor General of India through the Accountant General of West Bengal, the report made by INDSEARCH (Pune) for State of West Bengal in October 1998 for CAG of India, etc.

Selection of Time Period

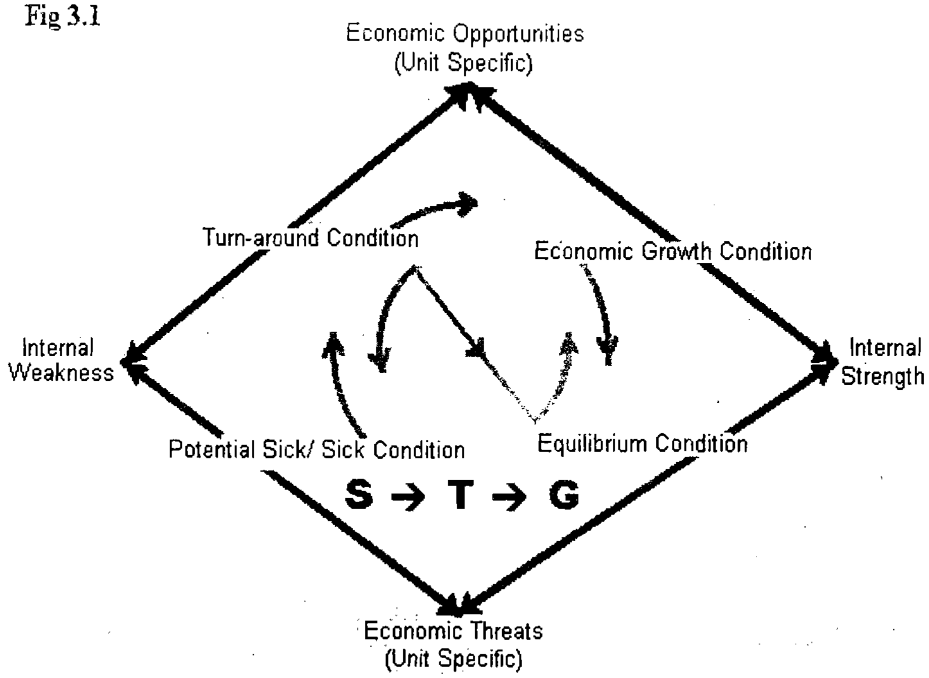
A ten-year period is selected because (i) it is a significant period for statistical analysis, (ii) stability of Government policy towards industrial sickness could be measured over a reasonably long period, like 10 years, (iii) pre-and post-globalisation periods consist of five years each, (iv) corporate cultural behaviour can be satisfactorily evaluated over a period, such as 10 years.

Methodology

The present paper is based on author's Ph.D. research work on 'State Level Government Companies in West Bengal - An Assessment of Performance with Particular Reference to Selected Units for 10 Years (1987-88 to 1996-97).

The methodology adopted has been the conventional management performance analysis, viz. the SWOT analysis. In other words, this is an analysis encompassing strength, weakness, threat and opportunity studies relating to managerial and economic performance of the unit. The matrix of these interactive parameters gives rise to corporate culture and also the forces influencing it. Diagrammatically the interactive parameters are exhibited below.

Fig 3.1



Legends: S→T→G=Sick Phase→Turnaround Phase→Growth Phase

Several economic conditions may result by the interaction of these forces. The diagram also shows the specific conditions among the inter-playing forces.

The most important part of our research effort is the development of an indicator index, which we termed SWOT index; the index has been constructed mathematically on the basis of dynamics of economic forces (SWOT forces) which affect the units on the various parameters of its operations. It has been assumed that economic forces are specific vectors and their behaviour would be identical with the conventional vector forces. The unique nature of these forces is ascertained and they are subjected on a unit specific matrix index, i.e., the SWOT index in order to evaluate their relative economic health profile.

Swot of National Iron & Steel Company (1984) Limited

Strengths:

(i) Good reputation for quality products

(ii) 33KVA power line

(iii) Adequate infrastructure of Railway siding (defunct)

(iv) Adjacent to Railway station and surplus land

(v) Well equipped testing laboratory

(vi) Good Industrial Relations

Weakneses:

(i) Old and obsolete plant & machinery

(ii) Low lying factory land

(iii) Absence of modern systems and work methods

(iv) Shortage of managerial personnel

(v) Long absence of work needing new approach for work

(vi) Absence of good managerial personnel, like General Manager, Works Manager, Personnel Manager, Shop Level Managers, Assistant Managers, Electrical Engineer, Law & Estate Officer, etc.

(vii) Bottleneck in Road Transportation from the Works to National High Way

Opportunities:

(i) Strategic business relationship with SAIL

(ii) Ability to cater to the local engineering industry demands

(iii) Cost effectiveness and value added product-mix

(iv) It can be expected that the unit can make cash break-even within three/four years and book profit in five years'time by renovation and revamping and capital repairs/additions in three phases.

Threats:

(i) Competitive market environment

(ii) Government inertia

(iii) Financial problems

(iv) The plant and machineries and structures will become fully unproductive

(v) The vast area of land (estimated value Rs. 27 crores) remains unprotected and therefore, is vulnerable to unauthorised encroachment

PERFORMANCE ANALYSIS

The financial performance of NI&S Co. Ltd. during the period under review was very poor. The indicators as tabulated in **Table-3** shows a dismal performance on the part of the unit with increasing total C.E. There is an incremental reduction of the total gross margin. The working capital turnover ratio was negative and fluctuated widely in a detrimental manner during the period of our study.

The company had been incurring losses since its formation.

The accumulated loss as on 31st March 1997 was Rs. 3908.59 lakhs representing 651.43% of the paid-up capital of Rs. 1200 lakhs. Net worth of the company was totally eroded.

Table 3

(Rs. in lakhs)

	Particulars	1992-93	1993-94	1994-95	1995-96	1996-97
A.	Non-Plan Loan (Rs.)	266.37	319.98	375.02	442.72	381.00
B.	Employees' Cost during the period (Rs.)	278.47	296.51	316.61	340.19	353.23
C.	Cash Loss before interest on Govt. loan and depreciation (Rs.)	351.00	372.00	366.00	397.00	384.00
D.	Working Capital (Rs)	(484.31)	(382.99)	(421.54)	(448.34)	(481.87)
E.	Capacity Utilisation:					
	Rolled products	1277MT	938MT	752MT	190MT	Nil
	Installed Capacity 2500MT					
	P.M. in Single Shift basis	(4.26%)	(3.13%)	(2.51%)	(0.63%)	Nil
	Steel Casting	120MT	109MT	54MT	07MT	Nil
	Installed Capacity 350 MT					
	P.M. in Single Shift basis	(2.86%)	(2.59%)	(1.29%)	(0.16%)	Nil

From the above discussion, the causes of sickness of the company can be focussed on the following important aspects:

(i) Most of the plant & machinery and absolute production facilities are age old and will hardly work on routine, leave alone preventive repairs and maintenance. This resulted in heavy damage to the existing facilities, reducing the rate of production and increasing rate of consumption of essential input materials beyond the level of economic viability.

(ii) The company had not balanced its age old plant & machinery and had not kept pace with time to diversify in the other areas of manufacture.

(iii) On account of high rate of consumption of input materials, production cost of the end-products became exorbitant and economically un-competitive.

(iv) Owing to mismanagement and irregularity in operation, the company did not get any financial support from the Bank of India and IRBI which stopped assistance and this has caused serious fund constraints to the company.

(v) On account of frequent closure and change of management, the morale of the staff and the management at all levels became low which retarded the growth and further development of the unit.

The operation of the unit had hardly resembled any synchronized production facilities. In other words, ad-hoc work schedules were followed for producing tailor-made products. This resulted in higher fixed charges with high rate of consumption of input materials. The production cost for the manufacture of produce became abnormally high and its pricing became prohibitive. Added to this the managerial dysfunction burdened the company, leading to irregular operation of the production lines. Most of the times the Plant & Machinery became idle and frequent stoppage of work virtually waived out the morale of the work-force leading to further deterioration of the corporate culture. Neither the government nor the management took any substantial steps so that the unit could be put to the healthy path. Instead, dysfunctional managerial function along with Government apathy led to withdrawal of financial assistance by the IRBI and Bank of India. The non-availability of fund also put the company in dire state. The unit could no longer be able to carry out its preventive maintenance and its effect was profoundly manifested by inferior quality of the products that it manufactured. The problem was further confounded by lack of orders and sales. The above dysfunctional economic forces played their roles at full strength on the unit leading to incipient sickness from its start up stage.

Performance Analysis Swot Index

The Model :

In order to construct the model, the SWOT parameters are divided into three major economic functions viz. environmental, industry and unit level attributes. The probable matrix is given below.

	Environmental (Macro) Factor Weightage	Industry (Macro) Factor Weightage	Unit (Micro) Attribute Weightage	Total Score (Composite)
Strength				
Weakness				
Opportunity				
Threat				

The above weightages can be regarded as vectors i.e. environmental vectors, industry-across vectors, unit-attribute vectors. A short description of functions and characteristics of each vector follows

Environmental Factor Weightage :

The factors that consist of the environmental factor weightage may relate to government policy affecting all the industry segments, change of customers needs, alternative high technology product, etc. In the recent era of globalisation and liberalisation, the protection given to a particular industrial segment may be withdrawn and that may lead to a considerable reduction of strength factor of the environment. In our study, we evaluated the intensity of this vector on a 10-point scale. If the influence of the vector is severe on the industry and on the unit, intensity on the 10-point scale would be high, while a less severe vector would have a low score on the above scale.

Industry Factor Weightage:

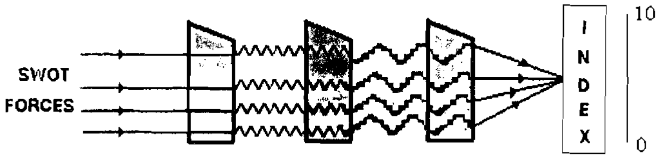
The industry (macro) factor is a factor that influences the industry segment in which the investigated firm belongs to and its influence could be felt on all the firms of the same industry, same size, approximately identical product wise and which remains operative in loosely the same geographical area. The factors are also similarly evaluated on a 10-point scale. The macro factor may relate to organisational culture of the industry as a whole, market reputation of the product manufactured by the industry, etc. We may explain the situation by comparing the present state of Jute and Information Technology industry. In the industry, although there has been potentiality of growth for its environmentally friendly features, hardly there has been any effort to bring out diverse products. The research and development of the product are practically non-existent. As a result, even if there is potentiality, there is no growth of the industry. The industry leaders are more to blame for this fiasco. Accordingly, industry level forces (macro forces) are conspicuously unfavourable. In contrast, the IT industry in India is globally competitive. Accordingly, if the same factors are considered for IT industry, the positive factors would have far greater weightage than the negative factors. While, in the former case, it is the negative factors that would get more weightage relative to positive factors. Additionally, the economic environment in the IT industry segment, global competitiveness and opportunity will continue to attract talented and skilled workforce to this sector than to jute sector. As a result, the jute industry would tend to suffer from sector specific resource (financial/human resource) allocation constraints. These factors would have a direct effect on the representative units of the industry.

Unit Level Weightage:

The Unit Level factor weightages are evaluated on the basis of our detailed analysis of the performance of the firm and indexed on a 10-point scale. There are various factors that can be isolated under each parameter, viz. Strength, Weakness, Opportunity, and Threat. We have, however, selected only the three most important factors for causing sickness in the unit, for constructing our index. We believe that these three factors would reveal enough to define in its entirety the profile of both the parameters at environmental and industry level. The scoring on a 10-point scale was made entirely on the basis of our in-depth analysis of the sample unit.

The final effect of these forces on the unit can be measured in a structured manner as shown in the diagram below:

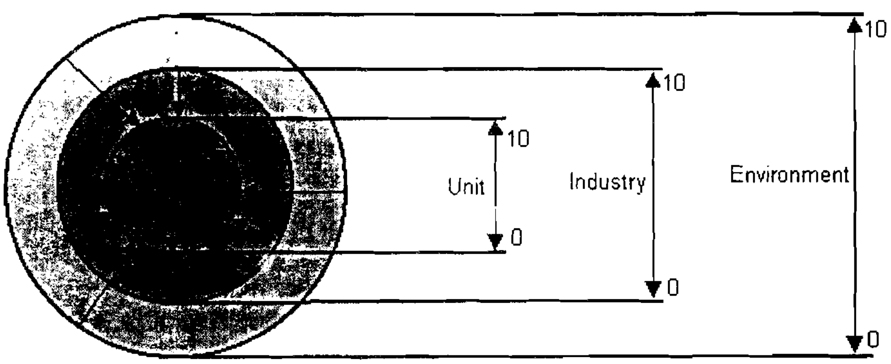
Total Environment



Legend:
Environmental Level O Industrial Level ⊗ Unit Level O

The incidence of forces can be evaluated from the filter-effect of the universal economic environment. The economic universe would generate forces for the creation as well as destruction of firms producing goods and services, etc. These forces, so generated, pass through specific economic environmental field-filter, that is guided by the factors, like government policy etc. After passing through this phase, it is further influenced by the specific industry characteristics and is shown as the industry-level field-filter. Finally, the forces reach the unit through the vector field-filter of individual attribute affecting the unit. At this final stage, the forces cause the actual effect on the unit, that is reflected in the actual performance of the unit. Hence, in another sense, the index is a good estimation of the performance of the unit, revealing thereby the economic health of the unit.

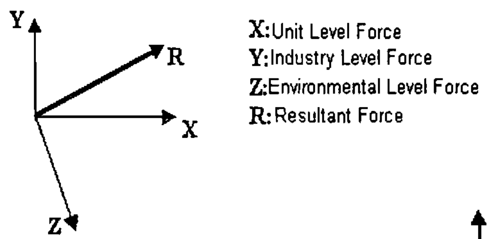
The Mathematical Foundation:

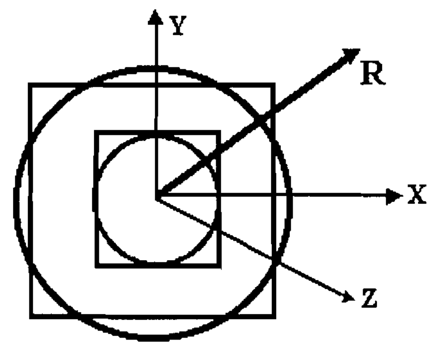


In order to provide further theoretical foundation of the index, we have subjected the index to a model specific evaluation. The model for action-reaction effects on the economic forces of the unit is given below.

The above model depicts the action-reaction dynamics of forces on the unit. The forces comprise, unit-level forces, industry-level forces and environmental level forces. How these forces finally act on the unit are also shown in the above diagram.

As can be observed, the above forces can be individually represented as follows:





The forces are in x, y and z directions and the resultant force (**R**) can be calculated on the basis of vector force properties. In order to provide a complete description of the vector, it is necessary to measure the magnitude and direction of the said vector. The vector (economic) acting on a unit is unidirectional towards the unit, since the effect of these forces on the unit causes the actual performance of the unit. Hence, if the magnitude of the vector is evaluated, its description would be complete. In the figure above, OX, OY and OZ are mutually perpendicular and the resultant **R** is given by :

$$R^2=OX^2+OY^2+OZ^2$$

$$\text{Hence,} |R| = \sqrt{OX^2+OY^2+OZ^2} = \sqrt{X^2+Y^2+Z^2}$$

Further, from vector properties, it can also be established that a sum of vectors is equal to the sum of the individual associated vectors. We would use, these two important properties of vector while calculating our index.

Since, all the external forces, viz. industrial and environmental, are found to be active within the company after 'filtration-effect', we can resolve the force accordingly and the resultant would be acting on the unit. Hence, if the unit-level force is measured on a 10-point scale, the scoring devices of the other forces, viz. industrial and environmental forces should also have to fall on a same measurement scale, i.e. 10-point scale on unit-level. On the basis of the above criterion, a model is built is a shown above. The industry level forces are acting on the unit and when these are measured, they fall on a magnified scale (10-point), as constructed for the unit-level forces. In other words, if the characteristic unit-level force is magnified, it would create a spectrum on a field described by the plane AB. In all the cases, it is the same spectrum that is taken into consideration and therefore, magnitudinal mix of the forces that created the spectrum, would be same for each level, viz. unit, industrial and environmental. Hence, the scale that we have used for all the stages is the same, which permits us to calculate intensity of the force finally acting on the unit, on the basis of the above scale.

This basic objectives for constructing SWOT index, are broadly to find out:

(a) differential severity of the ailments in the sample units;

(b) what parameters contribute to the maximum extent for the ailments;

(c) how the intra-parameter weightages influence the total index score;

(d) whether the unit would survive under present condition and if so, what strategy should be built up around the parameters to make the revival plan a success.

In order to achieve the above objectives, the parameters are required to be evaluated objectively rather than subjectively, as we believe that subjective evaluation may reflect investigator's bias and may leave a wide space for criticism and arguments. The detailed procedure to be followed for constructing the index, has already been spelt out earlier.

The next step revolves round the identification of vector identity of factors under each parameter.

Selection of Vector Factor:

We have identified several ratios as class representatives of the parameters. The selection of ratios is influenced by several factors; chief among them are the followings:

(i) The ratios represent a magnitude of variance between two items of financial variables. So they have scalar values.

(ii) The ratios vary over time. The variations are statistically significant over time. In fact, an enormous body of literatures is available, which identifies several ratios that could predict economic event, for example, bankruptcy, with considerable accuracy before a significant period of time, for instance 2-3 years before actual happening of the event. Hence, the ratios are capable of showing the direction. The celebrated works of Beaver, Altman may be cited as examples.

If the above two factors are considered, it would be observed that the ratios have magnitude as well as direction in their identity and as a logical consequence, they may be regarded as vector. Hence, in pursuant to the above logic, the ratios are selected as vector factors for the individual parameters. Additionally, the ratios are objective functions and any interpretation of their behaviours are required to be made objectively. Therefore, subjective bias entering into the investigation would either be low or non-existent. In the next section we describe what ratios we have selected and the underlying reasons for their selections.

Selection of Ratios:

We initially considered 23 ratios, which were found to be significant in assessing the viability of the investigated units. The ratios are given below:

i) Capital/ Labour paid out Ratio
ii) Current Ratio
iii) Debt Equity Ratio
iv) Sales to Total Assets
v) Working Capital Turnover Ratio
vi) Net Fixed Assets Ratio

vii) Gross Value Added per Rupee Wages paid

viii) Return on Total Assets

ix) Return on Equity

x) Return on Capital Employed

xi) Gross Profit Ratio

xii) Net Profit Ratio

xiii) Return on Capital

xiv) Gross Value Added per Employee

xv) Return on Gross Fixed Assets

xvi) Total Net Working Capital/ Total Assets

xviii) PBT/ Total Assets

xix) Total Gross Margin/Gross Value Added

xx) PBDIT/Sales

xxi) Net-worth/Value of Output

xxii) (PBIT+Indirect Tax + Excise)/Sales

xxiii) Cash loss to implied subsidy

From the above, group three individual ratios are selected for each parameter and they are grouped as under:

Strength	Weakness	Opportunity	Threat
1. Gross-Profit Ratio 2. PBIT+Indirect Tax+Excise)/Sales 3. Return on Gross Fixed Assets	4. PBDIT/Sales 5. Net Worth/Sales 6. Cash loss to. Implied subsidy	7. Working Capital Turnover Ratio 8. Gross Value Added per Re waged paid 9. Cash loss to Implied subsidy	10. Total Gross margin to Gross Value Added 11. Capital/Labour paid out Ratio. 12. Return on total Assets

We now explain the reasons behind selection of ratios under each parameter viz. Strength, Weakness, Opportunity and Threat.

Strength Parameter :

The economic strength of a company is dependent on its ability to withstand the market competition, internal chaos as well as environmental dysfunctional economic forces (conveniently identified by Government's fiscal policy). The market competion can be identified by indicators like sales growth, while the effect of internal chaos i.e. extent of efficiency in operation could be indirectly evaluated by corresponding gross profit. In other words if both the market competition and the internal chaos are to be objectively evaluated by the help of an indicator, it is natural that the G.P. ratios as given by GP/Sales would be best suited. Similarly one of the indicators for evaluation of the environmental factors like effect of government's fiscal policy, could be (PBIT + Indirect Tax + Excise)/Sales. Accordingly we have selected this ratios as the second ratio under the Strength Parameter.

Similar is the case for selecting return on gross fixed assets, since it also gives us an indication of the extent of internal chaos i.e. internal efficiency of the company in an indirect way.

Weakness Parameter :

The economic weakness of a company is usually due to loss of market, increase of internal chaos i.e. greater efficiency in operations, detrimental effect of government economic policy. It is therefore clear that economic assessment of weakness is a diametrically opposite assessment of its strength. In other words, the factors for evaluation of this parameter would be the same as under strength parameter since these are two faces of the same coin. The analysis is little stretched, however, in this case, vis-a-vis the strength parameter and hence we have selected some nearly identical ratios like PBDIT/ Sales and Net Worth/Sales. In addition, it is observed that final collapse has been prevented by the government by periodic infusion of funds, so that the unit can carry on its operations. This is a singular factor in favour of the company from its impending winding up. However, we have considered this factor as another main weakness since this subsidy hinder the entrepreneurship of the workforce. It further leads to continuation of the ailments to its present chronic stage. The ratio, Cash loss to Implied Subsidy has been selected for the above reasons.

Opportunity Parameter :

The factors under this parameter relate to the environmental opportunity available to the company and how these opportunities are exploited by it. The factors under this parameter could be: (i) Gap between Demand and Supply, (ii) How efficiently the products are being manufactured and available to the customers at a comparative price advantage, etc. These factors are only indicative and not exhaustive. If the efficiency of the company is to be understood under opportunity parameter it is obvious that cost control and efficient manufacturing operations are two important factors under the above category. The ratios that could suitably draw out the profile of the above factors would be:

1) Working Capital Turnover Ratio.
2) Gross Value Added/ Re Wages Paid.

We have earlier explained that the subsidy is an indirect factor of strength of the company, though it also could be surrogate measure of weakness of the unit. This indirect measure is important from 'opportunity' view point. Accordingly, the ratio of Cash loss to Implied Subsidy has been selected as it counts an opportunity to remain under operative condition even in the face of the severest economic disaster.

Threat Parameter:

The threat to the core competency of the company be conveniently evaluated by the gross margin, labour cost and economic return earned by the company. It is for this reason we have selected the following ratios:

(i) Total Gross Margin to Gross Value Added
(ii) Capital/Labour Assets

Having selected the above ratios it is now our endeavour to construct a matrix as per Step 2.

The constructed matrix under three separate economic parameter are given below:

(i) Unit Level Factors Matrix
(ii) Industry Level Factors x Unit Level Factors Matrix
(iii) Environmental Factors x Industry Level Factors x Unit Level Factors Matrix
(iv) Final Matrix (Index Value).

Result

Name of the Unit	Index Score	Remarks	Status
NISCO	-65.72	Below the third quartile point	Unviable

Results (as per SWOT Index) :

We have already explained the mechanism for evaluation of index score of the individual units in the earlier paragrah. On a 10-point scale the composite measure for a favourable index score of a unit would aggregate to 103.92. In other words, the composite index score would vary between +103.92 and -103.92. If the above scale is divided into four equal parts, the first quartile point would fall at +51.96, the second quartile point of mid-point would be zero, while the third quartile point would be at 51.96.

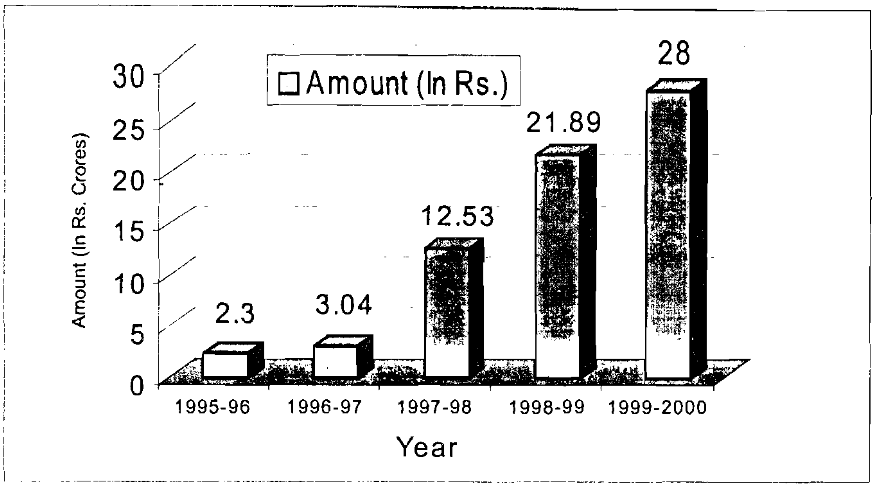
The co-ordinate value of quarter points would be an important criteria for the evaluation of the health profile of our sample unit.

The mid-point at zero would mean an economic state of the unit where the environmental policies as well as the growth factors are at break-even position. In other words, any adverse change in the economic policies would pull the units towards its ailing phase while favourable economic policies would push the unit towards healthy track.

The first quartile point at 51.96, would reveal an economically strong company with a prospect of healthy growth. The indicative value of the third quartile point viz. -51.96 shows precarious economic condition of an unit in which a very severe ailment has set in. It also shows that unless major economic turn-around steps are taken at this juncture, the sample unit would be unviable for all practical purposes. Moreover, any score below this point would mean an economic condition where no nursing step could possibly revive the company from its ailing state.

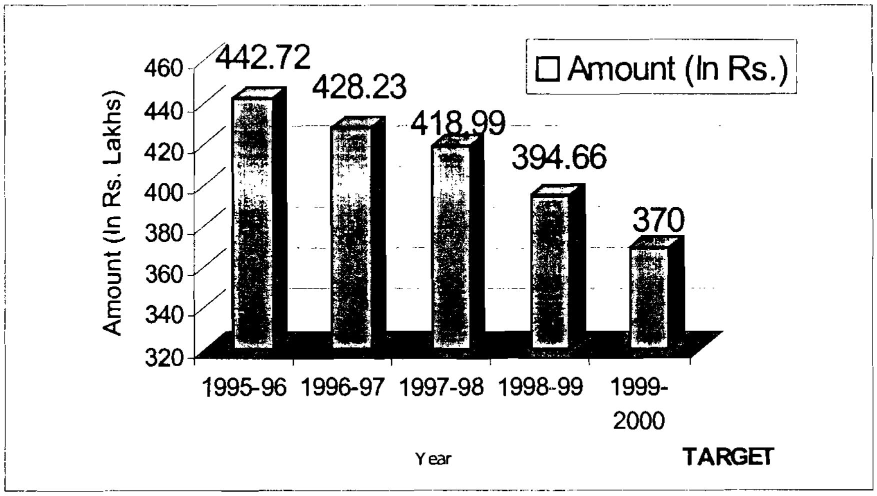
Projected Performance as per Company's Expectation
TURN OVER
(1995-96 to 1999-2000)

Year	Amount (Rs. in crores)	Growth (%)	Trend Upward(↑) Downward(↓)
1995-1996	2.30	-	-
1996-1997	3.04	32%	(↑)
1997-1998	12.53	3.42%	(↓)
1998-1999	21.89	116%	(↑)
1999-2000 (Target)	28.00	20%	(↓)



NON-PLAN ASSISTANCE
(1995-96 to 1999-2000)

Year	Amount Received (Rs. in Lakhs)	Yearwise Reduction (Rs. in Lakhs)	Yearwise Reduction (%)	Trend Upward (↑) Downward (↓)
1995-1996	442.72	-		
1996-1997	428.23	(-) 14.49	(-) 3.27%	(↓)
1997-1998	418.99	(-) 9.24	(-) 2.16%	(↓)
1998-1999	384.66	(-) 24.33	(-) 5.81%	(↓)
1999-2000 (Target)	370.00	(-) 24.66	(-) 6.25%	(↓)



Outcomes

In our study, the hypothesis formulated was that corporate illness is due to a change of corporate culture wherein internal strain is generated which is enough to pull the unit off-balance and is primarily responsible for the collapse of the unit. Though it would not automatically lead to the conclusion that the internal strain was responsible for collapse, nevertheless, based on the findings from the qualitative analysis, it could be established that the downfall of the unit was symptomatically linked to the relatively wide fluctuation of index values over time, thereby confirming, inter alia, that distortion of corporate culture was the root cause.

The actuals and budgeted figures of the unit has been presented graphically to signify the expectations of management regarding attainable performance levels vis-a-vis the actuals. It is from this standpoint, we observe that apparently the management is serious to combat the sickness through different means, particularly better capacity utilisation and streamlining the operations. The incremental indirect profit can be seen from different points of view, namely, reduction of loss and earning more profits. The unit has shown a seriousness for loss reduction, even where profit has not been made. The updating of technology that could give this unit a shot in the arm also involves high quantum of fresh investment. The company, being government company, do not have the freedom to choose the most appropriate lines in terms of either choice of technology or change in product composition, to be more market savvy.

Diagnosis and Prescription

It has not been taken into due account that many of the so-called sick government companies were, in fact, companies taken over as sick ones with the extension of benevolence by government not only to retain the redundant labour force but also to retain the obsolete technology causing all kinds of maladies. The continuing sickness of the units, it may be averred, was due to the resultant effect of the causes that turned these units sick as also failure to comply with timely modernization, retraining of workers, expansion of capacities and innovative marketing orientation.

We find in our study that the government showed an overt affection for establishing new government companies by taking over sick companies instead of reviving them. In majority of the cases the inherent advantages that these units had were not exploited to the benefit of the struggling unit. Many ailing companies had assets of large market value. In no case, we find that the units disposed of these assets, or sold a part of them, to build-up new production lines bringing in new technology and thus upgrading the existing lines of production. Such existing and new lines of activities could be planned with reference to the liberalization aftermath and enhanced competitiveness.

A multi-disciplinary team of experts could do perhaps a good lot in putting them back on track, by deciding on a viable nursing plan. The revival scheme so prepared could be put into effect immediately as a time-bound programme.

So far the government policy has been oriented towards nursing at the unit level. The banks and financial institutions were advised to identify the sickness at the incipient stage itself for better effect. The promulgation of Sick Industrial Companies (Special Provisions) Act, 1985, by the government was a step in this regard. However, over the years, the SICA has failed to bring in the much sought after rehabilitation of the sick industries leading to their revival. The government thinking of remodelling the SICA is a welcome step in this regard. However, nothing will be achieved by modifying SICA unless the rehabilitation is a successful one.

The formation of the BIFR was earlier viewed as an appropriate mechanism for rescuing a sick unit. However, the performance of the BIFR was disappointing. Large number of sick companies with weak promoter took shelter under the BIFR and as a result a considerable amount of resources was parked up in non-performing companies leading to accelerated spread of sickness in the economy. The growth of the economy suffered and the banks became weak due to non -recovery of their dues. The time has come to seriously judge the effectiveness as well as desirability of the operations of the BIFR, under the present liberalized regime. Following steps are suggested:

1) Once a sick unit is registered with the BIFR, the promoters should be given a time-bound program for its revival. They would have to submit a plan for rehabilitation within six months. An independent expert committee along with the FIs should judge it and recommend its implementation within a month. If the plan fails to take off with another month, the registration of the sick unit under the BIFR would automatically lapse and the unit will be out of bounds of the BIFR. The creditors may then institute appropriate measures against the company.

2) The promoters of the sick unit should be on a watch list by all the FIs and banks. Extra caution and additional securities may be taken in the case of their new ventures.

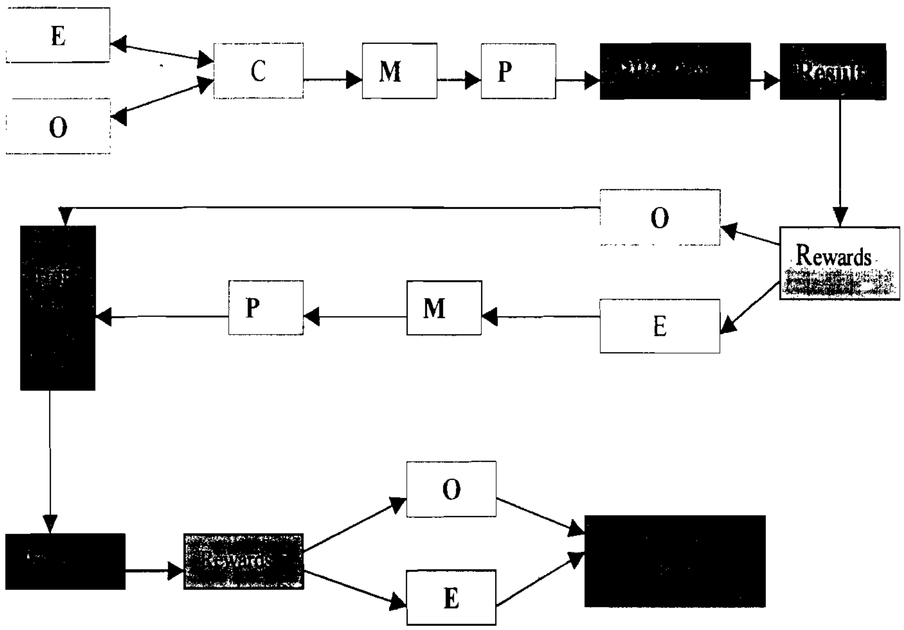
3) Recovery process should be accelerated under the existing law and appropriate legislation may be promulgated, so that the bankruptcy and winding up procedure should not take more than six months to complete.

We propose that special kind of business reengineering plan may be adopted for revival of the sick units. In the following paragraphs such a plan is outlined.

Business Process Rehabilitation

The business process rehabilitation can be defined as a management process whereby an organisation is remodelled by complete overhauling of its production process, cultural aspects, organisational goals and strategic methods. It is diametrically opposite in essence to the concept of downsizing which is presently being pursued with great vigour: Downsizing may lead to reduction of the direct cost of labour but will increase indirect costs, since the shop-floor workforce will be increasingly replaced by technology professionals, consultants, etc. In fact, it is observed that downsizing has not brought in any tangible economic gain in the long run. In fact, the cumulative economic value added of fortune 1000 companies was on decline due to the downsizing effect. If that be the case, it is equally possible that downsizing will also bring down the economic value added with respect to its pre-downsizing period. This is crucial for survival of any struggling company. The two key criteria required for making any rehabilitation plan successful. Hence, there is a need to have a new management strategy and we have identified business process rehabilitation as one of the viable methods for such a successful rehabilitation plan. Although several other plans and or techniques are available, such as value engineering, continuous improvement and total quality management, however, these techniques are found to be partially successful, since the objectives of these techniques are to improve efficiency and to cut costs without changing the crucial basic business model. As we have found out in our study that the organisation culture plays a dominant role, any improvement should aim at remodelling this basic culture thereby the basic business model.

The basic business process rehabilitation (BPR) of a sick unit is based on the assumption that efficiency of the whole organisation depends on the efficiency of the other organisation functions. Unless each organisation function offers efficiency, no effective business plan could be successful and no organisation survives. In other words, the basic requirement of the BPR of a sick company is the awareness how each function contributes and synchronises with the revival of the sick unit. A basic model of BPR plan is given below:



E → Employees, O → Organisation, C → Communicational Goal, M → Motivation, P → Participation, BPR → Business Process Rehabilitation.

However, there are several steps before a successful BPR plan could be put into operations.

Employee Education

To make BPR successful, it is essential that the employees of the sick units are taken into confidence. It may not be difficult for the management to explain the need for such a plan. Frequently, the organisations fail to justify the need and sometimes resort to downsizing which leads to loss of trust or faith of the employees on the management. In the ensuing clash, victim is the BPR with the end result being the sick becomes more pronounced. Hence, a carefully chalked out strategy should be first drawn out and the BPR plan should be communicated to the employees with well justified reasons that clearly underlies that there exists a large gap between the organisation objective and the present status of the company. Finally, the employees should be informed via competent analysis of the company's business attainment and rehabilitation of its sick state, the fundamental benefits of such a plan.

Total Involvement of the Employees

In order to make the BPR plan successful, it is necessary that employees are totally involved in its implementation. The total involvement will not be achieved without a dedicated management. One way to ensure this, is to merge the company with a healthy unit. This impetus and dedication of the senior management of the healthy unit will ensure commitment of the employees. It is insisted upon, that total involvement is very difficult to achieve and certainly will not be achieved with the present management of all the sick units in our sample. No amount of government legislation or direction would bring in the desired change. What is needed, in case of non-merger, is the assurance of a new management team on a definite time-frame to bring in the desired change. Although, the step is very difficult and still not attempted in any unit, we propose that experimentation in the form of workers co-operative, synchronised management involving both the employees and the management may be attempted for a more tangible result.

Providing Employee Goals

Any successful BPR plan should include employee goal as an important criterion for the key plan objectives. The plan should outline, what the employees will get out of the BPR exercise. Otherwise, the employees will be likely to focus on difficulties rather than on rewards of the BPR. In every unit in our sample we find that the management did not offer employees a vision of success and reward. The communication is the most difficult parameter that the unit would encounter. It is necessary to keep communication channels open both ways and to convey the required information honestly and clearly. It is also necessary to tie-up employee goal with the corporate strategy. This is also a difficult part, because the management is confused how the goal can be translated into the strategy. The services of the consultants may be helpful, but such services may also lead to conflict within the organisation. For instance, the consultant may want to bring in changes, which the employees do not like. In such an event, a conflict situation may arise and may eventually lead to abandonment of the BPR plan. Hence, it is very necessary to maintain strategic control over the BPR plan by the management and the advise of the consultant should be accepted with caution. One way to achieve this, is to take in-house initiative and transfer the benefits of the BPR plan immediately to the employees. This will build up trust and initiative of the employees. The step will also remove confusions about the objectives and the purpose of the BPR planning from the employees. Otherwise, the results will be disastrous to the company. In other words, the employees should be educated of the risk and return that they would get, once the BPR plan is successful. It would bring twin benefits: added motivation and increased participation. These two activities would lead to change in corporate culture to the desired direction and linking up of employee goal with the organisational strategy. Once the benefits of the BPR start pouring in, there will develop a process chain. The employees will be increasingly involved in successful implementation of the plan.

Although we have emphasized on in-house business process rehabilitation strategy for the risk units, we are however, sceptical about its implementation towards successful end. It is preferable to put this plan into action via merger with a healthy company. Alternatively, a healthy company should be identified to adopt the sick units. This identified company should then embark on a process engineering through effective communication, statute with education of the employees about BPR. Once they are satisfied, the process of motivation should be started aiming at total participation of the employees to the BPR plan. The benefits of the plan should be immediately transferred to the employees as this will ensure trust and increased participation of the employees. Once this process is completed, further steps may be initiated to integrate the total implementation of the BPR. Any bottleneck or deviation could be avoided by opening up communication channels so that confusions could be removed at its initial state. Once, this happens, the BPR could be heralded into its logical desired end, leading to revival of the sick unit back to its healthy phase.

National Iron & Steel Co. Ltd.

Vector Value on the Basis of Environment/ Unit Matrix

Ratios	Absolute Value	Vector Value (a)	Environment Vector value(b)
Strength			
1. Gross Profit Ratio	-1.09515	0	11.9
2. (PBT+Interest+Indirect Tax + Excise)/ Sales	-3.0358	0	4.824
3. Return on Gross Fixed Assets (PBDIT/F.A.)	-2.7381	0	0.0786
Weakness			
4. (PBDIT)/ Sales (%)	-2.7381	10	11.9
5. (Net Worth Intangible Assets)/ Sales	-14.41	10	0.622
6. Cash Loss Govt. Subsidy	8.36993	10	0
Opportunity			
7. Working Capital Turn-over Ratio	-0.236	10	0.122
8. Gross Value Added per Re. Wages paid	-25.102	0	12.83
9. Cash loss to Govt. Subsidy	8.37	10	0
Threat			
10. Total Gross Margin/Total Value Added	-2.7381	10	11.9
11. Capital/Labour Paid Out Ratio	-3.41	7	10.76
12. Return on Total Assets	-0.054	10	1.4

(a) Vector Value is computed with respect to Environmental absolute value as given in column (b) vis-a-vis the individual absolute value.

Vecotr Value on the basis of Industry/ Unit Matrix

Ratios	Industry Absolute Value	Unit Absolute Value	Rank Vector Value	Remarks
Strength				
1. Gross Profit Ratio	12	1.09515	1	The vector value of the individual value is calculated by comparing the absolute value of the individual ratios under each parameter at unit level with that of at industry level.
2. (PBT+Interest+Indirect Tax+Excise)/Sales	0.063 0.063	-03.0358 -03.0358	0 0	
3. Return on Gross Fixed Assets (PBDIT/F.A.)	12.73	-0.1104	0	
Weakness				
4. (PBDIT)/Sales(%)	12	-1.11	10	As above
5. (Net Worth Intangible Assets)/Sales	1.178	-1.095	10	
6. Cash Loss toGovt. Subsidy	0	0.23	8	
Opportunity				
7. Working Capital Turn-over Ratio	0.18	0.5348	10	
8. Gross Value Added per Re. Wages Paid	6.98	-25.102	0	As above
9. Cash loss to Govt. Subsidy	0	0.23	8	
Threat				
10. Total Gross Margin/ Total Value Added	0.59	Meaning less	10	As above
11. Capital/Labour Paid Out Ratio	36.78	3.4186	10	
12. Return on Total Assets	7.14	-0.054	10	

Derivation of Unit Level Vector Value on the basis of Environment/ Unit Vector and Industry/Unit Vector.

Ratios	Environment/ Vector Value	Industry/ Unit Vector Value	Resultant Unit Vector Value	Remarks
Strength				
1. Gross Profit Ratio	0	1	1	Resultant Vector is calculated on the following $\frac{\sqrt{X2+y2}}{1414}$x10 since the vector scale is a 10-point scale while the maximum resultant vector value would be 14.14.
2. (PBT+Interest+Indirect Tax+Excise)/Sales	0	0	0	
3. Return on Gross Fixed Assets (PBDIT/F.A.)	0	0	0	
Weakness				
4. (PBDIT)/Sales (%)	10	10	10	
5. (Net Worth Intangible Assets)/Sales	10	10	10	
6. Cash Lossto Govt. Subsidy	10	8	9	
Opportunity				
7. Working Capital Turn-over Ratio	10	10	10	As above
8. Gross Value Added per Re. Wages Paid	0	0	0	
9. Cash loss to Govt. Subsidy	10	8	9	
Threat				
10. Total Gross Margin/ Total Value Added	10	10	10	
11. Capital/Labour Paid Out Ratio	7	10	9	As above
12. Return on Total Assets	10	10	10	

Final Matrix

Ratios	Environment/ Vector Value	Industry/ Vector Value	Unit Vector Value(c)	Resultant Vector Value
Strength				
1. Gross Profit Ratio	0	1	1	1.41
2. (PBT+Interest+Indirect Tax+Excise)/Sales	0	0	0	0
3. Retun on Gross Fixed Assets (PBDIT/F.A.)	0	0	0	0
ΣStrength				
Weakness				
4. (PBDIT)/Sales(%)	10	10	10	17.32
5. (Net Worth Intangible Assets) / Sales	10	10	10	12.32
6. Cash Loss to Govt. Subsidy	10	8	9	15.65
ΣWeakness				
Opportunity				**50.29**
7. Working Capital Turn-over Ratio	10	10	10	17.32
8. Gross Value added per Re. Wages Paid	0	0	0	0
9. Cash loss to Govt. Subsidy	10	8	9	15.65
ΣOpportunity				
Threat				**32.97**
10. Total Gross Margin/Total Value Added	10	10	10	17.32
11. Capital/Labour Paid Out Ratio	0	10	9	15.17
12. Return on Gross Fixed Assets	10	10	10	17.32
ΣThreat				**49.81**
ΣResultant [Index Score]				-65.72

A CLOSER LOOK AT CORPORATE GOVERNANCE VIS-A-VIS THE PSUs IN INDIA

Partha Sarkar and Pradip Kumar Samanta***

Introduction : The Relevance of Corporate Governance

Corporate Governance is a subject of debate and discussion in the corporate world. It has become a necessity rather than a luxury (Narayana Murty, 1999). Corporate Government has been defined as: "the distribution of rights and responsibilities among different participants in the corporation such as, the board, managers, shareholders and other stockholders, and spells out rules and procedures for making decisions on corporate affairs" (OECD Code of Corporate Governance). The goal of Corporate Governance is to create and maintain efficient decision making process and prevent significant mistakes in corporate strategy (Pound, 1995).

A corporation's primary goal of maximising shareholder's wealth in a legal and ethical manner involves three main players namely the shareholders, the management and the directors. The shareholders have trusted the company and invested their capital ; the management runs the company which is accountable to the directors and the directors in their tum are answerable to the shareholders.

Various factors are responsible for accelerating the relevance of Corporate Governance in the Indian context. These can be stated as follows :

* The process of globalization and liberalisation that our country has initiated, facilitating among other things, direct flow of foreign capital. The increasing global role of foreign direct investment and foreign financial institutions in markets also emphasises the need to protect the investors interests in the emerging markets.
* Series of corporate failures, both in the public and private sectors, following which the markets, the investors and the society at large have begun to lose faith in the infallibility of these large systems. The examples of ITC, Shaw Wallace in the private sector, NFL in the public sector, Barings, Sumitomo, Enron in the international sector are worth mentioning. These companies have felt the adverse impact of uncontrolled risk taken by the hot shot corporate managers.

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* Tremendous competition leading to the objective of satisfying higher customer needs.
* Transparency and fairness arising out of mergers, acquisitions and mega collaborations.
* The Central Government's initiative of reducing corporate tax rates and thereby making the question of tax compliance more relevant.
* Employees of today's corporation are having global access and aspirations.

One of the gaps that has been pointed out in the context of the coverage of the subject of Corporate Governance is that the PSUs have escaped adequate coverage both nationally and internationally (Reddy, 1997). Taking into consideration the large outlay in the PSUs, and the fact that PSUs are undergoing rapid changes due to reforms and disinvestment, it is imperative to review governance in this sector. Good governance in this sector is connected with their survival under increasing competitive scenario.

Psus In India: A Present Look

The PSUs have played a vital role in the Indian economy in respect of employment, investment, national income generation, savings, capital formation, etc. There have, however, been several criticisms about poor performance and in some cases utter failure of PSUs. Sometimes allegations are raised against inefficient running, overstaffing and political interference even in profit making PSUs (Chelliah, 1995). The basic ailment of the public sector is the confusion in goals whereas, in the case of the private sector the goals are clear (Vittal, Mahalingam, 2001). The objectives of the public sector are as follows:

* Developing infrastructure for economic development and promote rapid economic growth and industrialisation of the country.
* To create employment opportunities and promote balanced regional development.
* To create a self-reliant economy through the development of local industries.
* To generate investable resources for development by earning suitable returns.
* To prevent/reduce concentration of private economic power.

Presently, we are witnessing the impact of economic reforms on the structure of PSUs. These impacts have resulted in organisational restructuring, disinvestment and closure of PSUs. The government has been undertaking the disinvestment of PSUs with a view that entry of private sector units may induce competitive spirit between private sector units and PSUs. The government has also been undertaking disinvestment of the enterprises, which have been earning profit. PSUs are in a transitional stage. Attempts are being taken to free public enterprises from excessive govt. control. Since the inception of structural reforms in India, public sector has been finding its happy hunting grounds namely, the domestic market producing a number of competitors.

Presently, the PSUs have the following major challenges before them:

* To increase their efficiency level and reduce dependence on govt. budget. Concerted effort is to be given to raise resource from banks and capital markets.
* Effectively managing domestic and foreign competitors.
* PSUs going public require new disclosure norms and the management should review their needs constantly.
* Development of a mindset aimed at customer satisfaction and profit.
* Managing change as a collective effort involving management, trade unions and Government (Sengupta, 96).

Under the Navaratna programme, the government has identified some of the important PSUs enjoying comparative advantage and those which have the potential of becoming global giants. The Navaratna strategy has touched the core of the public sector management policy-autonomy, which could lead to a meaningful accountability and performance. Thus, while discussing the case of Corporate Governance, Navaratnas become the special focus and discussions based on how they are practising Corporate Governance should come to the forefront.

Relevance of Corporate Governance in the Case of PSUs

Several discussions on Corporate Governance which include Cadbury Committee Reports & Greenbury Committee Reports in Great Britain, King Committee Report in South Africa, CII Code of Corporate Governance, SEBI Code of Corporate Governance lay down various aspects of Corporate Governance. While the above considerations have been understandable as far as the private sector is concerned, the question that has haunted various participants in the corporate sector, is 'to what extent is Corporate Governance relevant in case of public sectors?' Corporate Governance in respect of PSUs assumes greater significance in the present situation when our country is undertaking economic reforms. The private sector generally undertakes various measures relating to the structures, control mechanism and systems to ensure that there is no adventurism or failure due to wrong strategies. On the other side, the issues in respect of PSUs are in the area of empowered internal governance, dismantling the multiple, accountabilities, and restructuring the control mechanisms at par with the best practices, which would ensure sustainable and long-term value-creation for the stakeholders. So there is a need to examine the Corporate Governance issues relevant to public sector undertakings in India. The infirmities in PSUs governance needed a devoted attention or a sustained effort is required to fill-up the shortcomings of PSUs governance. Presently, when our country is undertaking economic reforms, the process of privatisation may ensure transferring property rights to new owners who may be from the general public, employees, other institutions and corporate entities. However, mere transfer of property rights does not ensure that the goals of privatisation have been attained, until sound Corporate Governance structures and processes are established and sustained, covering the transition period. In the absence of a better governance system and process including more active and vigilant share holders, the goals of privatisation would not be achieved. The infirmities in governance architecture in the case of public enterprises appears to arise mainly from:

* The current powers to create, develop, renew and restructure the governing board and its members and their variance with the typical widely held public corporation.
* The powers specially created or exercised by the government, which are not in consonance with the transparency ideal and other generally accepted principles of good corporate governance.
* The lack of logic for continuation of these powers in the interest of independence in the governing board, its integrity, accountability and transparency.

A close examination of the functioning of PSUs reveals that the government has a massive task before it to create the enabling conditions that would improve the quality of Corporate Governance across the public enterprise system and in its transition to becoming market oriented (Reddy, 1997). Various studies have shown that a majority of investors attach considerable importance to the quality of Corporate Governance in a company and would be willing to pay a premium for better managed ones. Government as a shareholder, has to approach the capital market repeatedly as part of the disinvestment programme hence it will create confidence in the minds of the investors with regard to the quality of Corporate Governance in the PSUs (Ganesh, 2001). It is worth - mentioning here that good Corporate Governance in PSUs implies attention to issues larger than certain directives of relevant bodies. They need to address the principles of government and public enterprise relationship and create the fundamental pillars based on which the governing board can become effective. The principles, codes and best practices for boards will become far more attractive and effective once these fundamentals are agreed upon and instituted.

Important Corporate Governance recommendations relevant to PSUs

Standing Conference of Public Enterprises (SCOPE), New Delhi, in the year 1996, laid emphasis on the need to examine the Corporate Governance issues relevant to the public sector undertakings in India. It was recognised that the Code of Corporate Governance at that time, (namely, the Cadbury Committee and the Confederation of Indian Industries), were most appropriate to the private sector and that the informities in the public enterprise governance needed a devoted attention. An attempt was made to address the special conditions of the central public sector undertakings, which are also publicly listed and traded on the stock exchanges, and a report titled "Corporate Governance and the Public Sector Undertaking" was prepared in 1997. The report, derived from the perspectives of several industry leaders and academicians, highlighted a large number of issues and recommendations to improve the quality of Corporate Governance. It was once again reformulated and various considerations were taken into account. A modified version was prepared and was referred to as "The First Principle of Corporate Governance for Public Enterprises in India". Some of its important recommendations regarding codes of Corporate Governance are:

* The government should review the legal status of all organisations controlled by it so as to separate those which can carry out commercial activities as companies following the market discipline and those that will continue as a sovereign function of the government.
* The government should draw up a consensus based comprehensive policy of privatization of both companies and other entities, delineating those, which will continue to be State-owned, the method of disengagement and the process of disengagement.

* The government should issue guidelines, policy or directives indicating the contingent conditions under which alone a currently private sector activity will be brought under State-control.
* The continued ambiguity in the set of objectives of public enterprises be resolved by the government, highlighting the primacy of financial objectives within a framework of product-market targets, and other values/social commitments.
* The government should bring about greater transparency by fully accounting for subsidies and price controls imposed on public enterprises, and achieving the desired social and development objectives through government's budgetary provisions and related mechanisms.
* The government should give up direct control over public enterprises by restructuring/rationalizing the role of departments overseeing these undertakings.
* The government must separate its ownership role and let public corporations be governed by the same structure of controls as that of any other company. The laws giving special status to public enterprises or special controls over them must be amended/annulled.
* Parliamentary/Legislative Assembly control over public enterprises should be limited to interaction with the body exercising the ownership rights of the Government.
* The government should assess and re-capitalise the public enterprises to ensure that the cost of social burden on a historical basis is made good on a one-time basis after adjustment for special grants and concessions given, if any.
* Specialised bodies to be created for that purpose should exercise ownership rights of the Government.
* The body exercising the voting rights should actively structure, create, develop and renew the governing board ensuring highest qualities of leadership, enterprise, integrity and judgement.
* Governments must ensure that persons who are or were members of parliament or legislative assemblies be excluded from occupying positions of chairman or members of the governing board of a public enterprise, thus extending the spirit followed in the case of central public undertakings.

* The governing board and shareholders should approve the position profile and specifications of chairman, chief executive and members of the governing boards in advance and through the expert advice of external bodies.
* Listed public enterprises will have to follow the mandatory requirements of the Company Law and the stock exchange regulations. All other public enterprises should follow the relevant CACG or OECD principles that would foster independence, integrity, transparency and accountability, of the governing board, protect the rights of shareholders and engage the stakeholders.
* Each public enterprise should develop a best practice manual for board processes, procedures and formats which may include, inter-alia, the profile of board positions; recruitment, selection, induction, training processes; conduct of board meetings; dealing with conflict of interests, disclosures, accounting and reporting requirements; evaluating board members; remuneration and renomination
* Public enterprises should ensure that individuals chosen for appointment as directors are either properly accredited, when such facility is available, or be formally trained in corporate governance practice.

The Disinvestment Commission has also suggested certain recommendations in respect of Corporate Governance that are applicable in the case of PSUs. Some of the recommendations are as follows (Ganesh, 2001):

* The Boards of PSUs should be professionalised with the induction of experts in various fields as non-executive directors chosen from the list prepared by the Public Sector Enterprises Selection Board (PESB).
* Government, as the major shareholders, would have to enable election of directors who would represent minority shareholders in the PSU.
* Selection of CEO and functional directors needs to be streamlined and should be time bound to facilitate filling up of vacancies without delay.
* PESB should, as a rule, be accepted by the concerned ministry without having to go to the Appointments Committee to the Cabinet (ACC).
* CEOs and functional directors should be appointed on contract basis for a minimum period of 5 years.

* PSUs should be granted operational autonomy and they should be held accountable for their performance. There should be graded autonomy based on performance and for this the PSUs should be classified as strong-performers and moderate-performers.

Apart from the above mentioned ones, the Vittal Committee has suggested a code of conduct and ethics for the PSUs and the administrative ministries. Various principles in respect of accountability and responsiveness to the public assets and funds, non-abuse of official position, continuous improvement through professionalism, etc. have been mentioned (Vittal, Mahalingam, 2001).

Corporate Governance Practices In The Navaratnas

The Navaratnas are practising the principles of Corporate Governance by following the SEBI directives and stock exchange listing requirements (Report of the Kumaramangalam Birla Committee on Corporate Governance). The Board of Directors of the Navaratnas formulates strategy, regularly reviews the performance and ensures that they are able to achieve mission with vision, objectives and goals set on consistent basis.

Board Of Directors

The Board of Directors of the Navaratnas consists of Directors comprising of Executive Directors, Chairman & Managing Directors and Non-Executive Directors, Part-time Official Directors, etc. In the case of ONGC, the Board of Directors currently consists of 16 Directors comprising of 7 Executive Directors including Chairman & Managing Directors (with one vacancy) and 9 Non-Executive Directors, 3 Part-time Official Directors, 1 Director representing the subsidiary and 5 others. In the case of SAIL, the Board of Directors has been reconstituted by including additional Non-Executive Directors. The Board of Directors at present comprises of a Full-time Chairman, 8 Whole-time Directors and 10 Non-Executive Directors.

Board Procedure

The functions performed by the Board of the Navaratnas broadly include, the following:

* Strategic and business plans & policies
* Annual operating and capital budgets
* Investment and exposure limits
* Compliance with statutory/regulatory requirements and review of major legal and contractual issues
* Adoption of quarterly/half-yearly and annual provisional and audited financial results
* Transaction pertaining to purchase/disposal of capital assets, major provisions and write-off

Committees Of The Board

Audit Committee

The Audit Committees of several Navaratnas were constituted prior to the announcement of SEBI guidelines. The Audit Committee looks after co-coordinating the work of Internal Audit, Statutory Audit & Government Audit. It reviews and approves Internal Audit, Department's Annual Plan and any special examinations by Internal Audit Department, reviews the action taken on observations of Statutory Auditors and Government Auditors. It also reviews implementation status of Internal Audit recommendations, reviews and implements Technical Audit Reports, etc.

Share Transfer Committee

The Share Transfer Committee of the Navaratnas reviews and approves requests received for share transfer/transmission/transposition, issue of duplicates, sub-division, consolidation, de-materialisation, re-materialisation, etc. The Committee meets at short intervals to promptly deal with various shareholders' request.

Shareholders'/Investors' Grievance Committee

The Shareholders' /Investors' Grievance Committee, conforming to clause 49 of the Listing Agreement with the Stock Exchanges has been formed, to look into the redressal of shareholders'/investors' grievance and complaints, like, transfer of shares, non-receipts of Annual Reports, non-receipt of dividend, etc.

Remuneration Committee

The Remuneration Committee has been constituted to consider various aspects of remuneration payable to Executives and Non-Executive Directors.

Means Of Communications

At present, quarterly/half-yearly/annual provisional and audited financial results are regularly put on the websites of the Navaratnas. The quarterly/half-yearly/ annual provisional and audited financial results are usually published in Indian dailies having national circulation across the country.

Apart from the above-mentioned ones there are several other Committees which have been formed by the Navaratnas, though not common to all of them. These are as follows:

* Human Resources Management Committee-Considers issues/ areas concerning Human Resource Management and Planning, HR Policies and Initiatives.
* The Project Appraisal Committee - Examines and makes recommendations for Projects/ Capital expenditure exceeding a certain sum of money.
* The Financial Management Committee- Reviews budgets, capital structures, financial policies, accounting standards, processes, systems and controls covering accounting policies, funds, treasury management, taxation, foreign currency loans, risk management and insurance of producing assets etc.
* Safety, Health, and Environment & Business Development Committee - Considers new areas of business, proposal for collaborations, joint ventures, amalgamation, mergers & acquisitions, commercial (including marketing), etc.
* De-leasing of Flats Committee-Considers all aspects of de-leasing of company leased flats.

From the above close examination, we find that the Navaratna companies follow the Securities and Exchange Board of India's requirement of corporate governance such as the composition of Board of Directors, the constitution of Audit Committee with a majority of independent directors and at least one director with accounting knowledge, disclosure of financial results in their web-site and in different Indian newspapers, the constitution of different board committees. The company is also showing in their Annual Report a separate sheet of compliance, non-compliance (with reasons) of the mandatory requirements along with the compliance certificate from the Auditors. But good Corporate Governance in PSUs like ONGC, SAIL, NTPC etc. implies attention to issues larger than those codes, guidelines and laws of different statutory and non-statutory bodies. They need to address the principles of government and public enterprise relationship and create the fundamental pillars based on which the governing board can become effective. The principles, codes and best practices will become more attractive and effective once these fundamentals (which have been termed earlier as first principle) are agreed upon and instituted.

Conclusion

The performance of PSUs regarding compliance of Corporate Governance shows that there is a large scope improvement. Moreover, the era of liberalisation has brought, among other things, a major change so far as PSUs are concerned. The monopoly enjoyed by them which automatically ensures their market, is now threatened. Thus the question of efficiently running the PSUs in the changed situation becomes all the more important. The government in this respect must play a pro-active role. In the Indian context, it would be difficult for any government to identify the private sector companies to become global giants because of the prevailing atmosphere of suspicion and the democratic system of our country. But so far as PSUs are concerned, it is not there. The major challenges before the PSUs enjoying the competitive edge is, whether they will be to overcome the problem of autonomy and accountability. A clear statement of the objective of the organisation needs to be given. Moreover, the various safety cushions that have been built around the systems that help individuals escape punishment must be removed. Policies need to be evolved so that PSU management will be able to take commercial decisions without fear. The code of conduct and ethics is a step that will ensure that corrupt practices do not emerge. It is also worthmentioning here that there is a need to overcome the limited aspiration levels of PSUs. A change in the mindset, especially at the top management level is necessary (Sharma, Nair, 1999). There has to be a global vision which can be cultivated by OD intervention and use of global consultants. The PSUs must have a customer focussed mindset. For this, productivity and quality must be given equal priority. Another point that needs to be mentioned here is that the government has to play the role of funding research and development or compensating for location in backward areas. The red tapism that we have so far been accustomed with must be removed. It is this that has been a major obstacle in the process of increasing competitiveness. Apart from this, the PSUs having advantageous position must be provided with the necessary infrastructure that may be required for increasing competition.

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ECONOMIC FORCES AND CHILDREN : AN INDIAN PERSPECTIVE

Amitendu Palit *

Children are possibly the most vulnerable sections of human societies. They are defenceless against adult machinations aiming to achieve self-seeking goals. Moreover, their inability to realize that they are being exploited makes them liable to greater oppression. While this is not to suggest that children are necessarily victims of unsrupulous designs, juvenile abuse and maltreatment have been matters of serious global concern.

This paper attempts to examine the role of economic forces in the overall development of children from an India-centric peerspective. Development encompasses a far-reaching gamut of perceptions. These include, apart from economic prosperity, quality of life, intellectual ability, and inculcation of values necessary for balanced growth of the individual and the society. Economic forces play significant roles in creating conditions that either facilitate, or hinder, the achievement of developmental goals.

Sufferings Of Children: How And Why ?

Various combinations of social, economic and cultural factors not only deprive children from accessing facilities essential for sound physical, human and economic development, but also subject them to physical and commercial exploitation. The deprivations suffered by children in different unfavourable circumstances broadly relate to lack of nutritious food, quality housing, hygienic living conditions, proper education and health facilities and enjoyment of natural resources (clean air, safe drinking water, unspoilt greenery etc.). Under certain situations, children are also derpived from emotional support and companionship. Exploitations experienced by children are usually in the form of physical abuse, child labour, sexual trafficking and forced induction into prostitution and pornography business.

The extent of deprivation and exploitation suffered by children is significantly determined by economic conditions of their families. In a developing country like

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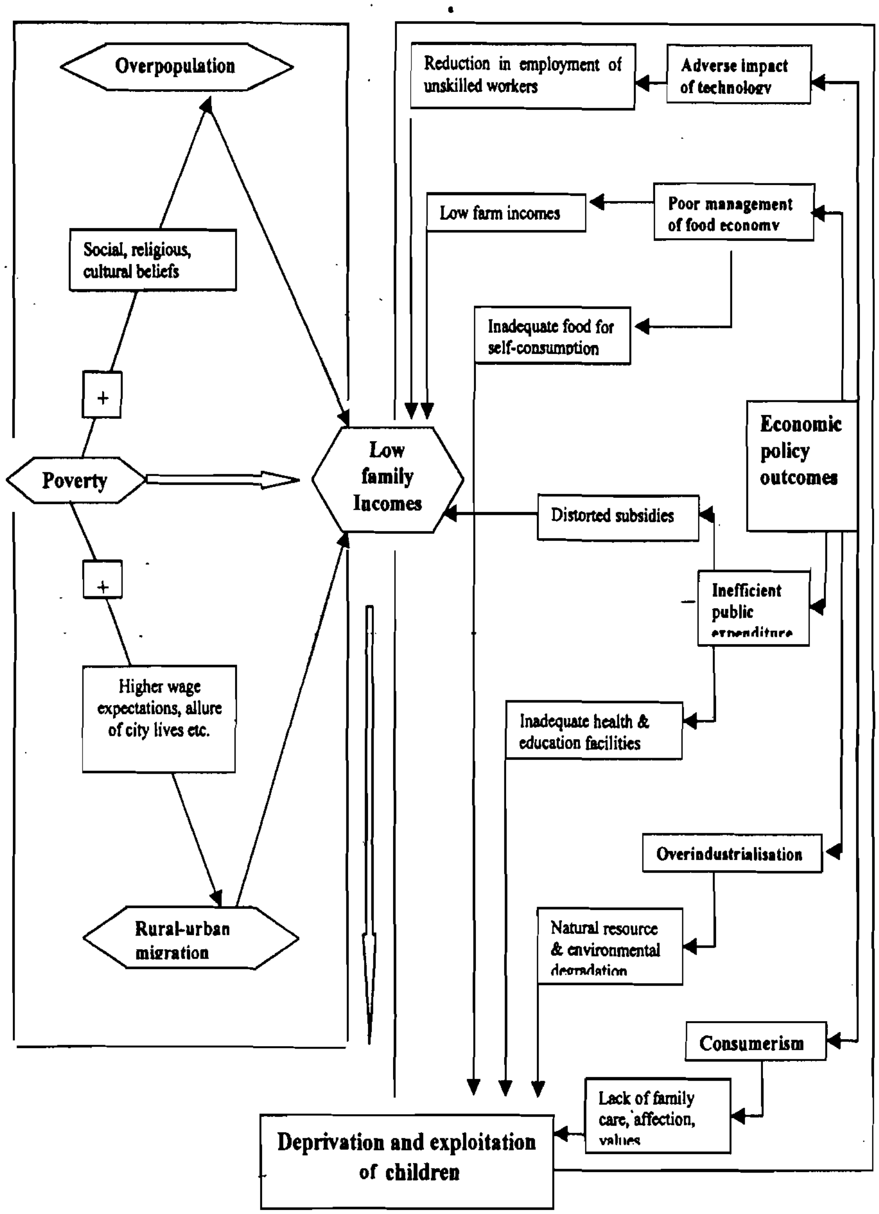
India, generic structural imperfections create and perpetuate resource constraints at the household level. The role of poverty in this regard can hardly be exaggerated. Children in poor families are the most deprived due to low resource endowments of their families. Apart from affecting households' abilities to take care of their children, poverty is also responsible for sustaining counterproductive processes like rural-urban migration and population expansion, which only intensify the plight of children.

It is, however, unfair to condemn only structural weaknesses like poverty for the troubles faced by children. Many economic policies adopted with the apparent objective of enhancing economic growth and prosperity suffer from the intrinsic inability to address the concerns of various sections of the society. These policies have serious redistributive impacts on income and resources of poor families affecting the future of children as well. India hasn't been an exception in this regard.

A pictorial illustration tracing the causality of economic forces responsible for deprivation and exploitation of children is presented in the accompanying diagram. Panel A of the figure highlights the role of poverty, rural-urban migration, and excess population, in creating and sustaining low family incomes. Panel B, on the other hand relates to the adverse impacts of economic policies. Occupational displacement of unskilled labourers due to gradual technological progress, low farm incomes and scanty food supplies arising from poor management of the food economy, inefficient public expenditure policy resulting in regressive subsidies and stunted growth of health and education facilities, degradation of environment and natural resources due to excessive thrust on industrialization, and erosion of positive human sentiments like love and affection due to growth of 'consumerism' and obsession with material wealth, are the main detrimental outcomes of economic policies in the Indian context, which have aggravated economic conditions of households and increased the problems for children.

Diagram: ***Economic forces behind deprivation/exploitation of children***

Panel A *Panel B*



Poverty

Poverty arises from the absence of adequate employment opportunities providing subsistence earnings and lack of productive assets. People can be employed, and yet they can be poor, if their remunerations are insufficient for meeting basic minimum needs. However, poverty is not restricted only to manifestation of low incomes. Being poor also indicates lack of essential human capabilities like being literate and healthy[1]. Due to limited access to basic facilities like health and education the poor are unable to utilise inbred talents and abilities. According to latest poverty estimates the absolute number of poor people in India is around 260 million[2].

Problems experienced by children due to poverty arise from low-income levels of their families. The first casualty of low family incomes is the dietary pattern with children getting deprived from *adequate nutritious food.* Besides, they are also deprived from *quality health facilities.* These two deprivations, at tender ages, not only inhibit healthy physical growth of children, but also subject them to malnutrition and, at times, premature deaths.

At a later stage, children are deprived from *education.* In poor families, the short-term costs of educating a child outweigh the long-term benefits of his/ her education. On several occasions, children are sent to school, only to be withdrawn later. In India, the drop-out rates at the primary (I-V) and upper primary level (VI-VIII) are 40.25 per cent and 54.53 per cent respectively (1999-2000)[3]. The relatively higher drop-out rates at the upper primary level are indicative of gradual withdrawal and eventual discontinuation of children's education as they grow up.

Lack of resources not only hampers the family's ability to educate children, but also affects its willingness to do so. In poor households, children are considered as income-generating assets. Families are inclined to push them into employment rather than sending them to schools. This leads to the emergence of *child labour.* Since children can offer only physical labour, they get absorbed in unskilled, low-earning occupations. They have to work more than their adult counterparts for doing the same amount of work and hence are subjected to greater physical stress.

Sexual exploitation of children is often a direct outcome of poverty and low family incomes. Children are compelled into prostitution for augmenting family earnings. Forced entry of children into flesh trade has a distinct gender connotation with the girl child being the worst sufferer. In India, there are numerous examples of children being sold off for paltry sums to flesh traders due to extreme poverty. The problem is particularly severe in areas, where large volumes of poor population depend entirely on agriculture for survival, and are vulnerable to crop failures.

While poverty marginalises households economically and accentuates deprivation of children, it is also instrumental in inducing other processes that have serious repercussions on children. Widespread poverty and lack of earning opportunities are responsible for heavy migration from rural to urban areas. Effects of migration on the concerned families and their children are often highly adverse. Poverty is also responsible for encouraging poor families to proliferate more. There are, of course, other incidental factors in addition to poverty that stimulate migration and growth of population. But irrespective of the underlying causes, both the occurrences are found to be inimical to healthy development of children.

Rural-urban Migration

Rural-urban migration is induced by the expected differential between rural and urban wage rates. Absence of gainful earning opportunities in the farm sector urges rural job seekers to migrate to towns and cities. However, poverty and unemployment are not the sole determinants of migration. Despite gainful employment, rural workers might decide to migrate due to expectation of higher wages and the perceived allure of urban lifestyles.

Some distinct patterns are clearly discernible with regard to migration in India. Migration can be distinguished between seasonal and permanent movements. Several agricultural workers migrate to urban areas during months of lean cropping activity and lower demand for labourers. These workers depend on both rural and urban sectors for their livelihoods. Inflow of seasonal migrants increases during crop failures due to droughts and other calamities and the resultant loss of earning opportunities in the farm sector. Permanent migrants, on the other hand, move out with the objective of settling down in urban areas. Expectations of higher earnings, and the attraction of urban milieu are the most important reasons behind permanent migration, apart from low family incomes.

As families shift from rural to urban areas, children are *uprooted* from their natural habitats. Since decisions to migrate are often undertaken voluntarily by adults in concerned families (due to expectation of higher earnings), children are forcibly displaced from familiar surroundings, environment and cultures. Their problems assume far more serious proportions after shifting to urban areas. The migrating population is only partially absorbed in the formal urban sector due to lack of skill and education. The rest struggle for entering the informal sector and accept jobs at low, or even, below-subsistence wages. Resultant low family incomes, and relatively higher cost of living indices in cities, deprive children's access to *nutritious food, health and education* facilities.

Heavy volume of migration has resulted in unchecked growth of urban population in India. Growth of slums has been a serious fallout of urban overcrowding. Greater Mumbai is a glaring example. Nearly 49 percent of Greater Mumbai's population lives in slums. These slum dewellers account for 6 percent of the total population of the state of Maharashtra.[4] Since slums are outside the purview of civic maintenance, slum dewellers and their children live in *pitiable, unhygienic conditions*. Congested living conditions also expose children to *sexual harassment*. With migration continuing unabated even slums find it difficult to accommodate people. Many families and their children are rendered *homeless* and live on streets and pavements without shelter.

Lack of family resources pave the way for children's *entry into work force* at tender ages. The urban informal sector absorbs the largest number of children. Children are often preferred for specific occupations like domestic helps, or informal sector trading activities, because of lower wage costs (relative to adults) and greater malleability (children are more docile, obedient and subservient). There are other children, particularly street children, who take to *begging*. At times, pangs of hunger also force them to steal. They become gullible to more serious crimes due to pressures of survival. Moreover, degrading commercial exploitations like *entry into prostitution* are common occurrences. The girl child, once again, is more vulnerable in this regard. In addition to prostitution, child trafficking and induction of children in pornography business are quite frequent.

It is mentionable that migration doesn't always involve the entire family. On several occasions, the adult male members migrate leaving the womenfolk behind in the villages. The movement of the male population from the hills of Kumaon to Garhwal in Uttaranchal is a typical example. This gender-specific migration, however, makes the women and girls in the family more vulnerable to exploitation under economic duress.

There are ample instances of girl children being sexually trafficked, or forced into prostitution, under such circumstances.

Excess Population

Ignorance, illeteracy, and limited adoption of family planning practices, are usually cited as the main reasons behind rapid increase of population in India. However, the role of poverty in this context is often overlooked. Poor households lack capital assets for generating future earnings. The inability of small and marginal farmers to invest in mechanical inputs makes them rely entirely on family labour for cultivation. Extra 'hands', therefore, are always useful. Similarly, rural non-agricultural workers as well as poor families in urban informal sector look up to an additional child as a useful source of augmenting family income. The motivations to expand family lead to a vicious circle, where poverty encourages proliferation, which, in turn, reinforces poverty by creating further pressure on houehold resources.

This is, of course, not to suggest that increase in population is only due to poverty. Reluctance to adopt family planning practices due to prevalence of certain socio-cultural beliefs (e.g. children are presumed to be 'gifts' of God), particularly in the poorer and less enlightened sections of the society, also play important role in expanding population. Higher socio-economic value attached to the male offspring, also encourages families to proliferate, till a boy is born. The urge to have boys also implies greater neglect and deprivation for the girl child.

India's population is now more than a billion. Unchecked population growth increases *all the deprivations and exploitations suffered by children due to poverty* (as discussed earlier) through progressively lower family incomes and resources. Roughly a quarter of India's population is poor. Conditions of children in this segment are the worst and their plight is likely to worsen with further increase in population.

Economic Policy Outcomes :

Policy outcomes are as important in determining economic conditions of households and development of children as structural imperfections like poverty. For more than four decades since independence, India relied on the 'mixed economy' and the planned process of development. Since the early 1990s, the country has had radical shifts in its growth paradigm. In recent years, India has moved closer to a market-determined economic framework, as opposed to state interventions and controls. Structurally, contribution of agriculture to national output has fallen over the years, while those of manufacturing and services have increased. Notwithstanding this structural transformation, which occurred largely on expected lines, employment patterns have not witnessed similar changes, with agriculture continuing to be the largest provider of means of livelihood in the country. The paradox can, however, be explained by the significant impact that intensive use of industrial technology has had on employment.

i) Adverse impact of technology :

Establishment of large and heavy industries got high priority in India's growth strategy from the middle of the 1950s. The thrust made India one of the most industrialised nations in the world. But the pattern of industrialization had several adverse consequences. Industries were built with the use of advanced, sophisticated technologies, often involving foreign expertise. The reliance on capital-intensive, skill-oriented technologies reduced employment opportunities for unskilled workers. The growing volume of unskilled population in the country had no option but to fall back on agriculture. This, in turn, increased the man-land ratio in agriculture and led to problems like greater fragmentation of land holdings, deforestation etc.

Widespread application of skill-based technology in industrial progress has sharply increased the polarisation between skilled and unskilled workers in India. This has had serious repercussions on economic conditions of unskilled workers in terms of lower incomes and resources. The deteriorations have affected the future of children in these families too.

Adverse impacts of technological progress, however, have not been limited to the industrial sector only. Employment opportunities in the farm sector have also been reduced due to displacement of people from traditional occupations and sharp increase in the premium on human skills. The 'Green Revolution', and the application of advanced technology in cultivation (e.g. high-yielding variety seeds, pesticides, fertilisers, tractors etc.) altered income distribution in favour of richer farmers. Affluent farmers with larger plots of land secured maximum benefits of the new technology while small farmers became worse off. Conditions of agricultural labourers worsened as greater use of tractors and mechanical inputs reduced the demand for hired labourers.

Considerable risks are involved in applying new technology with improper knowledge. Farmers used to traditional methods can face disastrous consequences in the process. Suicides committed by farmers in Andhra Pradesh and Karnantaka in recent years have been shocking developments. These fatal steps have been precipitated by crop failures. One of the important reasons behind the crop failures has been adoption of new technology with inadequate knowledge and expertise.[5]

Displacements associated with technology are also evident in construction of dams and river valley projects. In India, there are instances of large-scale displacement of villages and habitats because of construction of river dams. Similarly, establishment of various large industrial projects has deprived people from their occupations in and around the sites. On most occasions, the displaced people have found it difficult to secure fresh employment in the new projects due to lack of specialised skills.

With technological progress affecting economic capabilities and household incomes for people living at the margin, the future of children in affected families has become increasingly uncertain. Apart from the *deprivation arising from low family incomes* (discussed earlier in effects of poverty), children have been *unable to inherit traditional family skills.* This is not only threatening gradual extinction of many traditional practices, but is also compelling children to *pursue unfamiliar vocations* forced upon them due to unfavourable circumstances.

As India adapts to globalisation by adopting more outward-looking policies, fears of greater marginalisation of the unskilled work force are assuming significant proportions. Globalisation is likely to raise the real wages of skilled workers. This has repercussions for a country like India, which has large volume of unskilled workers. Many of these workers depend on agriculture for livelihood. Liberal entry of agricultural imports and increased application of specialized skill-based techniques in cultivation might adversely affect the incomes of these workers. With technology, skills, tight intellectual property rights, and liberal entry of imports and foreign capital becoming the key determinants of future national growth, *heightened economic insecurities for poor households, and possibilities of increased deprivation for children,* can hardly be overlooked.

I) OverIndustrialisation

Sustainable development demands simultaneous achievement of economic development and protection of natural environment. In India, however, industrialization-induced economic growth has subjected the environment and natural resources to considerable stress.

Industrialization in India has been accompanied by alarming rise in pollution levels. Emissions from industries like textiles, paper, chemicals, foundries, thermal power etc. have been responsible for high levels of atmospheric pollution. So have been the outdated technologies and fuel-mix used in transport systems for most Indian cities. Suspended particulate matter (SPM) has risen to frightening levels in Delhi, Kolkata, Mumbai, and industrial cities like Ahmedabad, Bhopal, Indore, Jaipur, Kanpur, Lucknow, Patna and Surat.[6] Noise pollution has kept pace with air pollution. Residential areas in Jaipur, Kanpur, Lucknow, Bhopal, Mumbai, Delhi, Kolkata, Chennai, Bangalore, and Hyderabad, have high noise levels even during nights due to intensive use of diesel generators, construction activities, noise emitted by vehicles, bursting of crackers and use of loud speakers.[7] Unrestricted discharge of domestic sewage and industrial effluents has made groundwater heavily contaminated and unfit for drinking, in several areas. Unchecked urbanization, and overcrowding of cities, have resulted in staggering increase of urban municipal wastes (paper, plastic and organic matter) with India estimated to generate around 5 million tones of hazardous waste annually.[8]

Health of children has been badly affected by rising pollution. Suspended particulate matter has led to increase in urban *infant mortality*. Prolonged exposure to lead, nitrogen monoxide, PAH (polycyclic aromatic hydrocarbons), carbon monoxide, and sulphur dioxide, has serious consequences, ranging from *impairing mental development of children to occurrence of chronic ailments like asthma and bronchitis*. Some of these pollutants are carcinogenic too. Living with high noise levels has led to perceptible declines in *hearing abilities* of children. Consumption of contaminated water has resulted in growing incidence of *hepatitis and other water-borne diseases*.

The heavy reliance of poor households on biomass fuels and its attendant polluting effects have been serious concerns in India. Low-income households use firewood, dung and crop residues for heating and cooking purposes. The effect of pollutants emitted by biomass fuels increases due to insufficient ventilation. In India, around 75 percent of the population is estimated to rely on biomass fuels. Biomass smoke is responsible for several *premature deaths* among women and children.[9]

Apart from environment, natural resources have also suffered serious depletion. India has a highly adverse land-man ratio supporting 16 percent of the world's human population, and 20 percent of the bovine population, on only 2.5 per cent of the world's geographical area.[10] Soil erosion and land degradation have risen to alarming levels due to widespread adoption of industrial practices like opencast mining, overgrazing of cattle, increased fragmentation of agricultural plots and extension of agriculture to relatively low-yielding areas.[11] Forest cover in the country has been dwindling rapidly due to heavy extraction of firewood and commercial exploitation of timber. Unchecked urban growth has resulted in encroachment into forests and shrinkage of vegetation. Forests have also been under pressure due to improper location of development projects.[12] The country's rich biodiversity has been affected due to deforestation and loss of animal species on account of poaching and illegal trade in animals.

Inability to achieve sustainable development has serious connotations for future generations. The repercussions are not limited to the inability of children to enjoy 'frurits' of nature, which affect their *mental and physical upbringing.* The more serious effect is in the damage inflicted upon ecological balance. Loss of natural resources reduces availability of productive assets. In terms of inter-generational development, scopes of economic progress for younger generations become *constrained* due to progressive loss of natural assets. Extinction of plant and animal varieties, for example, impedes utilisation of full benefits from advances in biological sciences. With industrialization occurring at the expense of natural resources, successive generations are *deprived from achieving optimal benefits of scientific and technological advances.* Depletion of natural resources also reinforces poverty since the poor depend directly on natural assets for survival.[13]

The institutional failures to check degradation of natural resources and environment have also been serious concerns. Notwithstanding the Forest (Conservation) Act, 1980, forest cover has kept on reducing due to illegal extraction of timber and dependence on forestwood for energy purposes. The Wildlife (Protection) Act, 1972, and Environment (Protection) Act, 1986 have also had limited success. One of the major problems in this regard has been ambiguous definition of property rights between various user groups. There is noticeable divergence of policy mandates between various user groups. There is noticeable divergence of policy mandates between different agencies with respect to implementation, lack of inter-ministerial coordination, absence of adequate technical personnel at state level, and lack of comprehensive databases on environmental damage, which have been major impediments in curbing pollution and resource depletion.[14]

Poor Management of Food Economy

Achieving self-sufficiency in foodgrains production was a fundamental objective of India's strategy of planned development. Though India has been successful in this regard, certain aspects of the foodgrain policy have had undesirable impacts upon economically weaker households and the future of their children. Excessive thrust on production of wheat and paddy has restricted farmers from switching to crops of shorter maturity and has made cultivation heavily rain-dependant. Farmers have also become vulnerable to monsoon failures. Rural incomes in drought-prone areas of the country have shown the disturbing tendency to decline sharply during bad monsoons, thereby *aggravating poverty and enhancing the attendant effects on children.*

Policy distortions in procurement and distribution of foodgrains have been responsible for poor management of the food economy in the country. Food procurement has largely remained a centralized process. Central procurement of wheat and paddy takes place only in Punjab, Haryana, Uttar Pradesh and Andhra Pradesh.[15] Farmers from distant areas are often unable to reach the procurement points directly and are exploited by traders and middlemen. Besides, fixation of minimum support prices (MSP) for food crops has often been arbitrary with the objective of securing political gains. Rising MSP prices have diverted bulk of foodgrains to the procurement pool rather than open markets. On the other hand, number of retail outlets ('fair price shops') under the public distribution system (PDS) has remained inadequate. The distinct urban bias of the PDS has enabled urban consumers with higher purchasing powers to avail foodgrains at cheap prices. While high procurement prices have led to piling up of food stocks at the expense of open market supplies, distribution bottlenecks have prevented supply of adequate foodgrains to not only the PDS families, but also in the open market. This has had serious repercussions for poor families, many of whom are outside the PDS. Inadequate open market supply of foodgrains at reasonable prices during times of crop failure has often *aggravated food crisis, which in turn has affected children in various ways.*

It is unfortunate that marketing policies for essential food products in India have been devoid of child-friendly outlooks. The quality of grains supplied through PDS has been much below desired levels *affecting the nutritious intake of children.* Instances like "Operation Flood", a landmark in milk production, despite multiplying availability of milk manifold, hardly improved the situation of children, as the increased output was utilized entirely for commercial purposes. Since children are among the primary victims of familiar resource constraints, *lack of child-friendly elements in marketing policies* is highly regrettable.

Inefficient Public Expenditure

Use of administered prices of foodgrains for political purposes, as mentioned earlier, is not an isolated example. In India, many subsidies are intended to serve political, rather than economic purposes. These subsidies have actually *distorted income distribution* rather than leading to more equitable distribution of resources thereby affecting household incomes. Subsidies on agricultural inputs have helped rich farmers in consolidating gains at the expense of small and marginal farmers. They have also encouraged spread of cultivation to low-yielding lands resulting in land degradation. Subsidies on power, irrigation, and fertilizers, have encouraged wasteful use of natural resources. Administered prices of kerosene have led to black-marketing and widespread adulteration causing air pollution. The result of all these undesirable outcomes has been *greater impoverishment of marginal families and increasing deprivation of children.*

In a developing country provision of public goods is the primary responsibility of the state. Public expenditure has to be aligned accordingly with specific thrust on development of social sectors. Creation of primary education and health facilities at the grassroots level in terms of adequate number of schools, primary health clinics, medical centers etc. are vitally important. In India, *public expenditure on social sectors has been constrained* due to greater allocation of funds to non-developmental expenditure (e.g wages & salaries, bonus payments, interest payments etc.). As a result, health and education facilities for children have fallen far short of desired levels.

The ninety-third amendment to the Indian Constitution made the right to free and compulsory education a fundamental right for children (6-14 years). The amendment also made it a fundamental duty of parents/ guardians to provide educational opportunities to children.[16] Nevertheless, *primary drop-out rates continue to remain disturbingly high,* underlining the reluctance of families to send their children to school. Apart from the unfavourable cost-benefit assessment for educating children (discussed earlier in effects of poverty), *absence of enough vocations and employment-oriented inputs* in the school curricula, have also been restraining forces.

The ICDS (Integrated Child Development Services) scheme aims to provide adequate health support to children below 6 years and nursing mothers in the country.[17] However, the success of the scheme depends critically on the quality of primary health infrastructure in the country. Primary health infrastructure has been suffering heavily from lack of trained medical personnel, irregular supply of medicines, and other attendant facilities, leading *to poor health of infants and children.*

Consumerism

For little more than a decade now, the Indian economy is passing through a phase of significant transformation. New policies are making way for old ones. The state is gradually withdrawing from business and is being replaced by private initiative and enterprise. The move towards a market-based economic system has been facilitated by the process of globalisation, which is not only obliterating national economic boundaries and homogenising international trade, finance, and production activities, but is also leading to closer interaction between cultures, societies, ideas and people. One of the upshots of transitions has been a radical change in the psyche of Indian consumers.

Economists, sociologists, and psychoanalysts have debated the emergence of 'consumerism' and its impact upon the society. 'Consumerism', in common parlance, refers to pursuit of economic policies that aim to increase the purchasing power of the consumer with the larger objective of encouraging him to spend more. In India, consumerism has been mostly restricted to the urban upper and middle classes. But the demonstration effect of the process on its participants has been a matter of serious concern. Possessions of material wealth and propensity to consume have become the yardsticks for judging relative societal standings. The result is an unwelcome tendency to acquire and spend thereby pressurising invididuals to earn more by stepping beyond their capabilities.

The urge to expand incomes forces sacrifice of leisure in favour of effort. The sacrifice has its consequences. Reduction in leisure hours on part of parents eats into quality time available for children. Children get *emotionally isolated* and often develop morbidity and depression. There are instances of children becoming unusually *violent* and afflicted to *self-destructive habits* like drugs and alcoholism. With rising stress levels, parents become more intolerant towards childish behaviour, and are prone to *physical abuse* of their wards. Professional tensions also affect family lives leading to marital discords, higher incidence of divorces and *emotional difficulties* for children. With urban women becoming active participators in the gradually strengthening process of 'consumerism', *infant health* has suffered due to lower periods of breast-feeding and maternal care.

Parent's obsession with material wealth gets attitudinally transmitted to children and imparts upon them *values that are perhaps not conducive to healthy community development.* Children are encouraged to pursue vocations having higher monetary rewards. Greater financial remuneration, and not necessarily knowledge or intellect, becomes the core parameter in choice of education and future professions. Access to, and widespread use of, digital technology, inevitable outcomes of consumerism and globalisation have increased commercial exploitation of children through rapid spread of *child pornography* on the Internet. Beside, rising volume of global tourist traffic has increased the *vulnerability of children to AIDS and greater sexual exploitation* by tourists.

Agenda For Future Policy Action

This paper has tried to identify the diverse economic forces responsible for the various deprivations and exploitations suffered by children with specific reference to India. Structural imperfections like poverty and unsustainable processes like rural-urban migration and population explosion emanate forces that adversely affect economic conditions of households and their children. These deleterious consequences are aggravated by the overarching failure of economic policies to address the concerns of equitable and sustainable development. The failures are most distinct in the adverse impacts of technological progress, poor management of food economy, inefficient public expenditure, overindustrialisation and the fallout of consumerism.

This section provides a tentative agenda for future policy action. This is not to suggest that the mentioned agenda is capable of eradicating the difficulties faced by children in our country. These difficulties would persist as long as various structural imperfections remain. The present suggestions only intend to propose actions on issues that affect children in various ways for reducing their sufferings to some extent.

Public Expenditure, Education and Health

- Social sector spending should receive priority in expenditure . States should significantly enhance budgetary outlays on health, education, provision of safe drinking water, slum development etc.
- Government should actively involve NGOs and voluntary organisations in changing attitudes of poor families towards educating their children
- It is important to initiate educational programmes having specific child-sensitive elements. Providing meals at schools in the poorest regions would increase household incentives for sending their children to school and would also ensure nutritious food for children.
- Primary and secondary school education should include more vocation and become more employment-focussed. Teaching traditional and basic skills should be seriously considered.
- Primary health clinics in rural areas suffer from lack of trained personnel (including specialist doctors and nurses) and regular supply of essential medicines . Efforts must be made by states to bridge the gap. If necessary, provision of incentives (in form of additional allowances in salary etc.) should be considered.
- It is important to encourage the practice of breast-feeding across all categories, particularly urban working women, for heal thier development of infants. Breast-milk substitutes should be discouraged . Kerala has recently been declared as the world's first 'baby-friendly state, and has an institutionalized breast-feeding policy in place[18]. The example should be a

trendsetter for other states.

- Subsidies having adverse redistributive effects should be eliminated. Existing user charges on basic services should be reviewed for redirecting subsidies exclusively towards the poor. Consumers having the ability to pay must pay for basic services.

Foodgrains And Food Economy

- The excessive thrust on paddy and wheat should be corrected. Diversified crop cultivation should be encouraged without sacrificing the goals of food security.
- Procurement of foodgrains should be decentralized. The existing procurement system must be overhauled by eliminating traders and middlemen.
- Minimum support prices for foodgrains should be fixed in line with the open market prices for encouraging farmers to sell more food in the open market and increasing the access of poor families to foodgrains.
- The PDS should focus only on BPL (Below-Poverty-Line) families in urban and rural area.[19]
- Fair price shops should increase in number. Density of poor families should be the primary consideration behind location of retail outlets.
- Quality of grain distributed through PDS must improve in nutrition content.

Marketing

- Central and state governments should make special efforts for preserving traditional skills (artisans, handicrafts etc.) by assuming marketing responsibilities of cottage and handicraft products.
- States should attempt to market essential requirements of children, like babyfood and milk, through institutional chennels.

Population

- Strict family planning norms should be implemented across the board for limiting family sizes. Economic disincentives, like reduced allocation under the PDS, can be introduced for discouraging expansion of families.

Natural resource

- Unclear definition of property rights has encouraged overexploitation of natural resources. Clear establishment of property rights, for user groups, is essential.
- Poor enforcement has been responsible for limited success of legislations like the Forest (Conservation) Act, 1980 and Wildlife (Protection) Act, 1972. Enforcement capabilities, both at the central and state levels, must be increased for better results.

Environment

- Public transport systems should be encouraged to use cleaner fuels for minimizing air pollution. But any precipitate action in this regard should first ensure adequate availability of alternative fuels. Delhi's experiment with CNG (Compressed Natural Gas) should be a useful example.
- Adequate collection systems should be put in place for collection and disposal of urban municipal wastes.
- All metropolises and industrial areas should possess efficient wastewater treatment facilities.
- Systems for assessing environmental damages should be put in place. Polluting industries should be penalised by imposing pollution taxes.
- Use of alternative fuels in place of biomass fuels should be encouraged in poor households.

Urban Development Policies

- Slum dwellers in urban areas can be involved in construction of affordable housing to which they might be subsequently entitled. Other durable assets like tubewells and sanitation facilities can also be developed by involving unskilled labourers from low-income families through 'food for work' programmes.

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18. Under the WHO and the UNICEF's joint 'Baby Friendly Hospital Initiative', Kerala has been declared as the world's first baby-friendly stste and Kerala's maternity hospitals have been called the best 'baby-friendly hospitals' in the world. www.rediff.com ; August 2, 2002.
19. At present the targetted PDS in the country meets the requirements of both BPL (Below-Poverty-Line) and APL (Above-Poverty-Line) families, though it has a larger allocation for BPL families.

DEFERRED TAX : A NEW AREA OF STUDY

*Partha Pratim Ghosh**

Deferred Tax: A New Area Of Study

Deferred tax come to the limelight after declaration of Accounting Standard-22. Accounting Standard (AS)-22 deals with 'Accounting for Taxes on Income', issued by the Council of the Institute of Chartered Accountants of India (ICAI) in April 2001.

This standard is applicable to-

(a) All enterprises

i) Whose debt or equity are listed in a recognised stock exchange in India, and Enterprises which are in the processing of issuing debt or equity securities that will be listed in any recognised stock exchange in India on the basis of board's resolution and

ii) all enterprises of a group, the parent company presenting consolidated financial statements and this accounting is mandatory in nature to any of the enterprise of the group of (i) above.

(b) All the accounting periods commencing on or after 01.04.02, in respect of companies not covered by (a) above.

(c) All accounting periods commencing on or after 01.04.03, in respect of all other enterprises.

Tax on income is an important corollary in the profit & loss account of a concern. According to matching concept tax on income accrues in the same period as the revenue and expenses to which they relate. But amount of income tax which a company is required to pay for a particular financial year is not exactly related to the income and expenditure for that financial year. This is because the basis for computation of business profit as per Income Tax Act differs from the accounting profit. The reason for these differences is revenue and costs recognition, may not be the same. For example, certain incomes are considered in the books of accounts but they are either fully or partly exempt from tax under section 10 of the Income Tax Act. Similarly, few expenses are charged in the books of accounts but the same may

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be disallowed in terms of the Income tax Act. Out of these differences some are permanent and others are temporary in nature. These temporary differences are known as 'timing differences'.

Timing differences is the differences between taxable income and accounting income for a period that originate in one period and are capable of reversal in one or more subsequent period. For example, depreciation charges as per Income tax Rules and Companies Act are not same. Although total charge may be the same over the working life of the asset, timing of such charge in profit & Loss account and tax statement are different. On the other hand, when the difference between the accounting income (loss) and taxable income (loss) is not reversible in one or more future period(s) then it is termed as 'permanent difference'. For example, any expense disallowed for income tax purpose although increases taxable profit, does not increase accounting profit because it is allowable in profit & loss account. A permanent difference arises when a fixed asset is revalued (upward) and additional depreciation is charged on revalued amount but this is not considered in the computation of taxable income. Following are the examples of 'timing' and 'permanent' differences :-

Timing Differences

(a) Where the amount of depreciation differs due to-

i) differences in depreciation rates;

ii) differences in the methods of depreciation i.e. WDV or SLM;

iii) difference in composition of actual cost.

iv) differences in method of calculation (e.g. in accounting method depreciation is calculated on individual assets but it is calculated on block basis for tax purposes. The calculation with reference to time in accounting method but on the basis of full or half depreciation under block basis for tax purposes.)

(b) Expenses debited in profit & loss account but allowed for tax purposes in subsequent years-

i) taxes, duty, cess, fees under section 43B.

Permanent Differences

(a) Specific disallowances-

i) income tax, wealth tax.

ii) cash payment exceeding Rs. 20,000 under section 40A(S).

iii) payment to related person under section 40A(2).

iv) Provision for Gratuity, Unrecognised Provident Fund under section 40(7).

(b) Certain incomes are recognised in profit & loss account but the same are exempt under section 10 of the Income tax Act.

ii) payment to non-resident under section 40(a)(i).

iii) provision for anticipation of liabilities.

(c) i) Expenses amortised wholly in a year for tax purposes but in subsequent years for accounting purposes i.e. substantial advertisement expenses treated as deferred revenue expenditure in the books of accounts.

ii) Amortisation for tax purposes is for longer or shorter period like, preliminary expenses under section 35D; Expenses for amalgamation under section 35DD; Prospecting expenses under Section 35E.

(d) Income is credited to the Profit & Loss account but taxed only in subsequent years eg. conversion of Capital assets into stock in trade.

(e) If the recognition of income is spread over a number of years in the books of accounts but the same is fully taxed in the year of receipt.

(f) where a deduction is allowed in one year for tax purposes on the basis of a deposit made under a permitted deposit scheme but the same is allowed in profit & loss account in subsequent years-

i) Tea Development Scheme under Section 33AB.

ii) Site Restoration Fund Scheme under section 33ABA.

Deferred tax leads to the above timing differces. So we can conclude that deferred tax is the effect of timing differences. There is no role of permanent differences in creating deferred tax. The concept of deferred tax assets or liability is intended to capture this timing difference. The following table shows the impact of timing differences-

(a)Taxable income is more than the accounting income – Create deferred tax asset

(b)Taxable income is lower than the accounting income - Create deferred tax liability.

(c)	There is taxable income but accounting loss.	–	Create deferred tax asset.
(d)	There is accounting income but tax loss (which can be carried forward).	–	Create deferred tax liability.

From the illustration (hypothetical) given below there emerges a clear idea about computation of deferred tax:

Sun Ltd., purchased a machinery at Rs. 1,20,000 on 1st April, 2001. Its working life is 3 years and no expected scrap value. For accounting purposes the straight line method is considered but for tax purposes 100% depreciation, where it is applicable, is considered. The company has profits before taxes and depreciation of Rs. 1,60,000 each year and prepares its accounts on 31st March annually. Assume corporate tax rate is 35% for each year.

Here this machine of Rs. 1,20,000 give rise a tax implications of Rs. 42,000 and spread over 3 years of its life for accounting purposes as shown below-

Statement of Profit & Loss for the 3 years ending 31.3.2001, 2002 and 2003.

From Accounting point of view :	**2001**	**2002**	**2003**
	Rs.	**Rs.**	**Rs.**
Profit before depreciation and taxes.	1,60,000	1,60,000	1,60,000
Less: Depreciation for accounting purposes	40,000	40,000	40,000
Accounting profit before taxes(A)	1,20,000	1,20,000	1,20,000
Tax on Accounting Profit (B)	42,000	42,000	42,000
From Taxation point of view :			
Profit before depreciation and taxes	1,60,000	1,60,000	1,60,000
Less: Depreciation U/S.32 of Income Tax Act.	1,20,000	Nil	Nil
Taxable profit (C)	40,000	1,60,000	1,60,000
Tax on the above (D)	14,000	56,000	56,000
Deferred tax liability (B–D)	28,000	14,000	14,000
Profit after tax (A–B)	78,000	78,000	78,000

In the above table it is shown that deferred tax is created in the year 2001 on account of timing differences. The amount of timing differences in this year Rs. 80,000 (i.e. 1,20,000-40,000). For this reason the amount of taxable income is lower than the accounting income and it gives rise to a deferred tax lliability i.e. 35% of Rs. 80,000 = Rs. 28,000. But in the year 2002 and 2003 the amount of taxable income is more than accounting income due to depreciation. Actually the tax effect of timing differences is reversed during these two years. So deferred tax liability is reduced by Rs. 14,000 each in 2002 and 2003. It is also seen that, tax expense is based on accounting income of each year.

Journal entry of the above statement:-

2001:	Profit & loss A/c.	Dr. 42000	
	To current tax		14000
	To deferred tax		28000
	(Being the current tax payable is to be provided for an deferred tax liability created for timing difference of Rs. 80,000)		
2002:	Profit & loss A/c.	Dr. 56000	
	To current tax		56000
	(Being the amount of tax payable is to be provided for).		
	Deferred tax A/c.	Dr. 14,000	
	To profit & loss A/c		14000
	(Being the deferred tax liability adjusted for reversing timing differences of Rs. 40,000)		
2003:	Entry as above.		

Treatment of deferred tax asset or liability is given below:

i) Deferred tax asset or liability should be measured by applying the tax rates that have been enacted or substantively enacted on the balance sheet date. When different tax rates apply to different levels of taxable income, deferred tax assets and liabilities are measured using average rates.

ii) Deferred tax asset or liability should be measured for all timing differences. Therefore, deferred tax assets are recognised and carried forward only to the extent that there is a reasonable certainly of their realisation. If there is no sufficient income, deferred tax asset should be recognised only to the extent such asset can be recovered by way of tax savings.

iii) Unabsorbed depreciation can be carried forward without any limit. However, AS-22, requires that there should be sufficient future taxable income which can be offset through deferred tax. It is pertinent to note that sufficient corroborative evidence should be made available. For ascertaining-

(a) The general trend of demand for the product that the company manufactures or does business in.

(b) The inherent ability of the company to have a market share as evidence by the demand of the company's product and its production or trading capacity.

(c) The budgeted profit & loss account of the company.

iv) According to Income tax Act, losses can be carried forward for a maximum period of 8 years. For this purposes, the enterprise relying on deferred tax should ensure that sufficient profit is available within that specified period.

v) As per para 19 of AS-22, an enterprise is allowed to reassess at every balance sheet date any previously unrecognised deferred tax asset and recognition thereof if it becomes reasonably certain that such deferred tax asset will be realised.

vi) The deferred tax asset carried forward should be reviewed at every balance sheet date and any amount of deferred tax asset is not recoverable for uncertainty of future income, should be written off to that extent.

vii) According to AS-22, the breakup of deferred tax assets or liabilities by major components should be disclosed. Deferred tax assets and liabilities should be disclosed under a separate heading in the balance sheet of the enterprise, separately from current assets and current liailities. They should also be distinguished from advance tax or tax provision or tax refund due.

viii) Lastly, deferred tax asset and liability generally should not be offset. The offsetting is done if the enterprise has a legally enforceable right to offset the amounts and it intends to settle such asset and liability on a net basis. (Para-27 of AS-22).

Conclusion

i) After application of AS-22 the assessee will be benefitted in the short-run but in the long-run the assessee may or may not be the gainer. It has already been said that the deferred tax liability creates when taxable profit is lower than the accounting profit. In the above illustration, in 2001 the journal entry is, Profit & Loss A/c. Dr. 42,000

To current tax	14,000
To deferred tax	28,000

Here actual tax paid by the company is Rs. 14,000 but an extra amount of Rs. 28,000 is also debited as deferred tax. So the company can utilise Rs. 28,000 for other purposes. Hence, we can say the essessee will gain in the short-run. But (according to illustration) from the 2nd year the taxable profit is more than the accounting profit and the tax effect of timing differences is reversed from this year. So deferred tax liability is adjusted by passing the entry-

Deferred tax A/c.	Dr. 14,000	
To P/L. A/.c		14,000.

And in the 3rd year the balance of deferred tax liability would be nil. Hence, it can be said that in the long-run the assessee may not be the gainer.

ii) As per para 30 of AS-22, deferred tax asset/liability will be shown under a separate heading. However, Schedule VI of the Companies Act does not provide for any such disclosure.

Suggestions

i) An amendment should be made in Part-I Schedule VI of the Companies Act in tune with AS-22.

ii) The mandatory requirements prescribed by AS-22, should be incorporated by the ICAI in their statement on auditing practices.

iii) Investor may be mislead in this point that the total revenue which is distributable in the form of dividend will be substantially reduced by applying AS-22. In fact, the misconception can be removed by I.C.A.I. initiating adequate steps.

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Students' Section

NPA MANAGEMENT IN INDIAN PSU BANKS - A DISCUSSION

*Rabindranath De Dalal * and Arindam Gupta***

The Problem

The most significant problem emerging in Indian PSU banks is the increasing trend of NPAs (Non-performing assets) and associated stress on CRAR (Capital Risk-weighted Adequacy Ratio) with each credit extension and consequent liquidity crisis for banks. Thus, the banks have become unable to attract funds from the third parties, while on the other, many funds which have become due will not be extended. Interest income is declining for banks and also cost of bank operations is increasing. A high proportion of bank advances is turning into doubtful debts, and banks are suffering from overdues and consequently huge losses. The whole situation has a great impact on the economy as a whole. Banks have also suffered serious decline in productivity, efficiency and consequent erosion of profitability. The NPAs of the Scheduled Commercial Banks and Financial Institutions (FIs) are about Rs. 110bn at present.

NPA- its classification

The RBI has defined the term NPA as "an asset, including a leased asset, becomes non-performing when it ceases to generate income for the Bank". 'Non performing' means those credit facilities in respect of which the interest and/or instalment of principal has remained 'past due' for a specified period of time as mentioned by the RBI from time to time.

Classification of advances is made on the basis of assets' performance of the banking companies. On the basis of creditworthiness and dependence on collateral securities, advances are classified into:-

i) Standard Assets.
ii) Sub-standard Assets.
iii) Doubtful Assets.
iv) Loss Assets.

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Banks are required to make 10 per cent provisioning on sub-standard assets, 20 per cent for doubtful assets that goes up to 30 per cent and 40 per cent respectively for the balance unsecured portion. Banks are required to make 100 per cent provision for loss assets.

A distinction is made in India between Gross NPAs and Net NPAs. Net NPAs are obtained from gross NPAs after deduction of the following:-

(i) Balance in interest suspense account, i.e., interest due but not received.

(ii) Claims received from credit guarantors and kept in suspense account pending adjustment (for final settlement),

(iii) Part payment received and kept in suspense account, and

(iv) Total provisions held.

(Report on Trend and Progress of Banking in India, 1996-97:13)

Table 1 shows the trend in gross and net NPAs in India.

Table 1: Trend in gross and net NPAs in India

	Gross NPAs (%)			Net NPAs (%)		
	1998-'99	1999-'00	2000-'01	1998-'99	1999-'00	2000-'01
Public Sector Banks	15.9	14	12.4	8.1	7.4	6.7
Private Secgor Banks (Indigenous)	10.8	8.2	8.5	7.4	5.4	5.4
Foreign Banks	7.6	7	6.8	2.9	2.4	1.9

Source: www.indiainfoline.com

Public sector banks have high levels of non-performing assets (NPAs) in comparison to private and foreign sector banks.

CRAR- Its Concept

To evaluate the soundness and solvency of banks, the concept of Capital to Risk-weighted Assets Ratio has become an important benchmark. Capital to Risk-weighted Assets Ratio (CRAR) reflects the financial viability of the commercial banks. According to the Narasimham Committee report, RBI made it compulsory for the Indian banks to maintain CRAR of nine percent. The CRAR is calculated on the basis of risk-weighted assets as a percentage of total capital (Tier-I and Tier-II). It can be found out through this formula:-

$$\text{Capital Risk-Weighted Adequacy Ratio} = \frac{\text{Capital Fund}}{\text{Risk} - \text{Weighted Assets}} \text{x}100$$

Tier-I capital contains elements that are permanent in nature. Tier-II capital contains elements that are less permanent in nature and can not be readily available against unexpected losses. Tier-I capital consists of paid up capital, statutory reserves and other disclosed free reserves and Tier-II capital consists of undisclosed reserves and cumulative perpetual preference shares, revaluation reserves, general provisions and loss reserves, hybrid debt capital instruments and subordinated debt.

Narasimham Committee's recommendations related to NPA

The RBI introduced the new concept of income recognition and non-performing assets (NPAs) for the year ended on 31.03.1993 onwards following the recommendations of the Narasimham Committee. As per the new guidelines, the credit facilities have been divided as performing and non-performing and the income recognition for standard, sub-standard, doubtful and loss assets has been prescribed accordingly. The guidelines so issued were revised from time to time. The guidelines as applicable for the year ending on 31st March in respect of specified year-

1993	-	Four quarters
1994	-	Three quarters
1995 and onwards	-	Two quarters

Bank Profitability and its relationship with NPA

NPAs have been a major factor in the erosion of profitability of PSU banks in India. The high level of NPAs of banks reflects the weak loan recovery mechanism. According to the RBI norms, banks have made provisions in respect of different assets (sub-standard, doubtful and loss) and hence they show losses though they operationally make profit. So NPA has a great impact on profitability. Banks should start immediate action to recover the advances which have been already categorised as NPA. Generally income from NPA is not recognised until it is actually received. Therefore the banks can not show interest income on NPA. Substantial increase in provisions and contingencies also leads to significant decline in the net profits of PSU banks.

NPA recovery process - A study of SBI's annual reports:

State Bank of India (SBI), a pioneer banking institution in India was constituted on 1st July, 1955 under the Act of Parliament. It has seven associate banks and 9,034 branches in India on its own currently in operation. Its net worth and profit (after tax) for the year ended on 31st March, 2002 have been Rs. 3,48,228 crores and Rs. 2,431.62 crores respectively. In SBI, at branch level, initiative has been taken for recovery of the advances. But the processes of recovery of the advances are not uniform for different branches. The head office has made guidelines for recovery of advances (NPA) and introduced rating system through internal control. So NPA recovery may increase in substantial rate. According to the annual reports of SBI, it was found that the bank has taken many steps to recover the amount of NPA. Some of these are :

(i) One time settlement of NPA with waiver of account,
(ii) Training programmes of the Officers for upgradation of appraisal skills,
(iii) Formation of task force to monitor NPAs above Rs. 5 crore,
(iv) Formation of circle management committee for monitoring all NPAs above Rs. 1 crore,
(v) Introduction of credit audit mechanism and
(vi) Monitoring cases with Debt Recovery Tribunals (DRTs).

DRT was established in 1993 to treat suits related to any NPA of Rs. 10 lakhs or more. But it could not meet the objective of rehabilitation because of lack of sincere effort.

At the end of 31st March, 2002, gross and net NPAs (NPA to Advances) of SBI stood at 11.95 per cent and 5.63 per cent respectively and in the previous year, i.e., in 2000-2001 the same was 12.93 percent and 6.03 per cent respectively. It reveals that the amount of NPA has declined but the rate is very low. Again, if we compare the Gross and Net NPA percentages of SBI to the average such percentages for the PSU banks, at least for the year 2000-'01, SBI's position is not at all satisfactory.

Table 2: Key Performance Indicators

Indicators	SBI	
	2000-01	**2001-02**
Return on Average Assets (%)	0.57	0.73
	(0.77)	(0.85)
Return on Equity (%)	11.92	15.97
	(15.41)	(18.18)
Expenses to Income (%)	67.66	54.40
(Operating Expenses to Total Net Income)	(57.09)	(51.72)
Earning Per Share (Rs.)	30.48	46.20
	(41.05)	(54.00)
Capital Adequacy Ratio (%)	12.79	13.35
Tier I	8.58	9.22
Tier II	4.21	4.13
Net NPAs to Net Advances(%)	6.03	5.63

Note: Figures given with in brackets are after adjusting the Net Profit/Operating Expenses for

* Writing back investment depreciation/IMD issue expenses/VRS expenses (2000-01).
* VRS expenses/Provision for investment depreciation/change in accounting for appreciation in HFT category of investments (2001-02).

Source: Annual Report of SBI, 2001-02.

Table 2 shows, as on 31st March 2002, CRAR of SBI was 13.35 per cent in comparison to 12.79 per cent as on 31st March 2001. It indicates that the bank has achieved the capital adequacy norm.

In case of SBI, provision made for non-performing assets in 2001-02 and 2000-01 was Rs. 2153.10 crore and Rs. 1432.53 crore respectively. Obviously the amount of NPA increased mainly due to backlog of NPAs, i.e., from the year 1993.

Scope of Statutory Audit and Internal Audit in NPA management

As per the norms of statutory audit, it is compulsory for the PSU banks to get their financial statements audited at the end of each financial year, i.e., 1st April to 31st March. The main aspect of this audit is :- Balancing of Books, Cash & Balances with RBI (classification of assets which has bearing on the income recognition), Other assets (inter-office adjustment), Deposit & other amounts, Other liabilities, Interest accrued, Contingent liabilities, Interest earned, Other income, Interest expended, Payment to and Provision for employees, Rent, taxes & lighting etc..

Not only statutory audit but also internal audit has great impact to know the NPA management position and its recovery from time to time. Internal audit and inspection audit are the parts of internal control. The head office generally appoints an internal auditor during the period of a particular year and a comparative analysis of yearwise performance (profitability, cash deposit ratio etc.) is also made by this audit procedure. According to the Basle Committee's recommendations, for effective banking supervision, human resource requirement, credit audit, management audit, cost effectiveness of audit, etc. are to be examined.

New Act passed to reduce NPAs

Recently the Lok Sabha passed "The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Bill, 2002" (the Act has been made effective on 21.6.2002) to reduce NPA of banks and to improve their asset liability management. The bill would enable banks and FIs to set up asset reconstruction companies, they would buy NPAs from banks and tackle the problem of increasing NPAs with the bank. But agricultural loan and small loans do not come under this ordinance. Banks and FIs can seize assets held as collateral securities in respect of loans of defaulters without going through time-consuming legal process.

Conclusion

We are in the age of information technology but there is lack of information and openness to the public and borrowers in the banking system. This is the main reason for irregularities and high NPAs in the banking system in India.

Generally public does not know the PLR (Primary lending rate) of banks and the customers also take their decision without keeping in mind different information as envisaged by the banking system.

Social development programmes like IRDP, SUME, SEPUP, Jawahar Rozgar Yojana etc. failed from attaining their objectives and huge amount of loan granted has become totally irrecoverable by the PSU banks because of misuse of funds and political influence. It is clear that development banking and profit earning can not go together. If development banks set up committees for the purpose of monitoring social development programmes and initiative is taken for quick recovery of advances, it would be better for the PSU banks.

India has a judicial system which is very much sluggish. Scientific approach for selection of good borrowers by examining creditworthiness has not yet been taken. Strict lending norms should be followed. Recovery campaign of loan must be organized with short frequency. The concept of micro credit should be implemented. In order to minimize the quantum of non-performing assets, the banks have placed more focus on credit quality and high-risk lending industries have been identified such as land development, hotel and lodging etc.. Banks continue to lend in these areas but more cautiously. Thomson Bank Watch, the largest rating agency for banks and financial institutions in the world, headquartered in New York, has expressed its views over the rise in the level of the NPAs of Indian banks. A senior official of TBW said, "It is a fact that banks resort to 'window dressing' of their loan assets through restructuring and rescheduling to 'camouflage' their actual asset quality problems."

As truly Basle Committee's Chairman, Peter Cook pointed out "Capital standards in international banking have been eroded, are continuing to be eroded, and should be eroded no further."

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STATUTORY COST AUDIT – A VERITABLE BOON TO THE INDUSTRIES

*Sudipta Ghosh**

For cost audit, existence of cost accounting is a pre-requisite which was first introduced in India in Defense Undertakings in 1920's where the Govt. used to give contracts to firms on 'cost-plus' basis and the cost structure was required to be investigated and verified. The real beginning of statutory cost audit on a wide scale started in the year 1965 with the introduction of Section 209(1)(d) and Section 233-B in the Companies Act, 1956. Section 209(1)(d) deals with the compulsory maintenance of cost accounting records by certain class of companies and Section 233-B is concerned with cost audit. The terminology of Cost and Management Accountancy issued by the Chartered Institute of Management Accountants (CIMA), London, defines cost audit as "the verification of cost records and accounts and a check on adherence to the prescribed cost accounting procedures and their continuing relevance". To elaborate the concept of cost audit, The Institute of Cost & Works Accountants of India (ICWAI) defines it as "an audit of efficiency, of minute details of expenditure, while the work is in progress and not a postmortem examination. Financial Audit is a 'fait accompli'. Cost Audit is mainly a preventive measure, a guide for management policy and decision, in addition to being a barometer of performance".

Accordingly, the characteristics of cost audit can be highlighted as follows:
-It is an efficiency audit;
-It is a propriety audit;
-It is different from financial audit; and
-It is a specialized service which can be rendered only by a qualified Cost Accountant.

This paper attempts to state the main features of the revised Cost Audit Report Rules, 2001, that makes cost audit an effective tool in the hands of industries for efficient working particularly in the context of globalization.

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Importance of Statutory Cost Audit in the Context of Globalisation

The focus of our economy has shifted from self-regulated economy to open market economy – the so called liberalized and globalized economy. The index of efficiency of performance of a corporate enterprise is not only measured by the amount of profit it makes but also by cost effectiveness. Lack of efficiency may create the corporate enterprises to lose their dominance and suddenly become sick which is ultimately prejudicial to the economic growth of a country. In this backdrop, statutory cost accounting and cost audit have assumed vital significance for the betterment of our economy in this era of globalization. The role of the Govt. has changed from regulator to that of facilitator and cost audit in the true sense acts as a facilitator to the management, the shareholders and the Govt. by identifying weakness in different production systems and disclosing inefficiencies at all levels of an organization.

The message of globalization is global competition and that is not possible without cost competitiveness. In fact, cost competitiveness emerges as the key success factor for survival and growth of industries and that is possible only by way of statutory cost accounting and cost audit. Moreover, statutory cost accounting and cost audit are also required to fight the cases of dumping of produced goods. Again such records help in measuring the extent of injury to an industry that can be caused by a foreign competitor in violation of WTO rules.

Revised Cost Audit Report Rules,2001 : a veritable boon to the industries

The Ministry of Law, Justice and Company Affairs (Department of Company Affairs) of the Govt. of India has issued an order on 27th December, 2001, on Cost Audit Report Rules, 2001(CARR) that makes a sea change in its basic approach and contents of cost audit. Industries should take it as a boon to them, as it is intended to benefit them immensely in improving their performance, efficiency and profitability.

The salient features of the newly introduced Cost Audit Report Rules, 2001, that makes cost audit more useful than the previous report rule are stated as follows:

1) The annexure and proforma prescribed with the Cost Audit Report duly audited by the Cost Auditor need to be approved by the Board of Directors and signed by the Company Secretary and at least one Director or in the absence of Company Secretary by at least two Directors on behalf of the company. This has created larger responsibility of the management, which was previously limited only to the extent of the discussion thereon.
2) Apart from manufactured products, the word 'activity' has been added so as to cover mining, plantation, insurance, banking and other service sectors.
3) Where price charged for related party transactions is different from normal price, the Cost Auditor shall specify the impact of such higher/lower price on margin of the product under reference. It will be useful for computing income from international transactions on "arms length basis" for submission of Report under Transfer Pricing Regulations vide section 92 to 92F of the Income Tax Act, 1961.
4) The Cost Auditor has to comment with reasons on the areas where the company is incurring losses or where there is considerable decline in profitability including indicative break-even point as well as on default, if any, on the payment due to the Govt., financial institutions and banks and penal interest levied thereon.
5) The Cost Auditor has to comment on the steps that are required to be taken to strengthen the company under competitive environment especially with regard to need for protection from cheaper imports, if any. Therefore, it will be useful as a strategy for developing a product for the company. Also it will be useful if the company is involved with Anti-Dumping Duty affairs.
6) The Cost Auditor has to comment on export commitments of the company vis-à-vis actual exports for the year under review. This information may reveal the position of export contracts that are yet to be executed by the company.
7) The Rules requires an internal audit of cost records in addition to cost audit and internal audit of financial records. Thus it is a welcome feature to prepare cost records on a regular basis or even online and using the same duly certified by qualified professionals for improving the company's performance.
8) The Cost Auditor has to give various suggestions for further improvements in the performance of the company in respect of cost control and cost reduction. Such an exercise actually results in operational and management audit of the

company.

9) The Cost Auditor is required to be invited to the meetings of the Audit Committee formed by the company. Thus Cost Auditors are valued members of the Audit Committee and their views are used to the maximum advantage.
10) Annexures to the Cost Audit Report have been extended to 28 paras which was previously limited to 14 paras. All the paras are intended to review and rectify the deficiencies in the working of the companies at shorter intervals.
11) Information in respect of competitive margin against imports has to be given for various intermediate/finished products sold by the company. This information will be useful to the companies for WTO and anti-dumping exercises.
12) Information to be furnished under Central Excise reconciliation will enable the company to reconcile excise records with that of excise duty accounts as per financial records, bringing out reasons for gap between excise duty paid and recovered. Again this information will be useful for conducting valuation audit under section 14A and modvat/cenvat audit under section 14AA of the Central Excise Act.

Conclusion

At present, Indian industries are at the crossroads of new challenges when efficient utilization of resources is of great importance. The new Cost Audit Report Rules, 2001 would go a long way in making the Indian industries efficient and competitive in nature. Considering its immense benefit, it is high time that the new Rules should be made applicable to all manufacturing and service sectors by the Govt. in the shortest possible time. With the new Rules, cost audit is given a more responsible role and is intended to be a modern tool for all time to drive the industries in particular and the economy in general to the heights of glory and success.

References

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REPORTS OF THE RAPPORTEURS OF THE NATIONAL SEMINAR ON "COMMERCE EDUCATION IN THE NEW MILLENNIUM"

A national seminar was organized by the Department in collaboration with the Committee on Commerce Education and Career Counselling of the Institute of Chartered Accountants of India (ICAI), New Delhi on 28th and 29th March, 2003 .The theme of the seminar has been COMMERCE EDUCATION IN THE NEW MILLENNIUM. There were four technical sessions :-(1) Common Syllabus for B.Com. Education and Vocationalisation of Commerce Education , (2) Accounting Standards, (3) Information Technology and E-Commerce and (4) Financial Instruments in Capital Market . The seminar was inaugurated by Prof. Amit Kr. Mallik , Vice Chancellor , The University of Burdwan , W.B.. The Chairpersons of the four technical sessions were respectively : (1) Prof. R.G. Mukherjee , Former Vice Chancellor , North Bengal University and Chairman, Rabindra Mukta Vidyalaya , Kolkata, (2) Mr. Somobrata Dutta, Chairman, EIRC, ICAI, Kolkata , (3) Prof. Sudipti Banerjea , Dept. of Commerce ,University of Calcutta, WB and (4) Prof. Pranab Kr. Bhattacharya , Dept. of Commerce, University of Kalyani , WB .The seminar was attended by around 225 delegates from all parts of the country and also two delegates attended the seminar from Bangladesh . Prof. S. Srinivasan, Chairman, Vinod Gupta School of Management, IIT, Kharagpur gave the valedictory address .The reports of the reppoprteurs of the four technical sessions are presented below one by one.

MARCH 28, 2003

11a.m. – 1p.m.

First Technical Session

"Common Syllabus for B.Com. Education and Vocationalisation of Commerce Education"

At the introduction, the Chairman discussed the new syllabus prescribed by WBHEC in the backdrop of UGC syllabus. According to him, commerce should be introduced at the higher secondary level and not prior to that.

Mr. A. K. Aggarwal, Secretary, CCE&CC, ICAI, New Delhi gave the key-note address at this session. According to him, a student after passing his B.Com examination is in a state of dilemma, though there are several options available to such students who may join any of the following courses for his future carrier: Chartered Accountancy; Cost Accountancy; Company Secretary ship, Masters in Business Administration, Banking, Insurance etc. Hetold the audience about the students facing the problem after joining these courses because of the non-uniformity of inputs which they received at B.Com level as some of the Universities have not revised their curriculum for the last several years. He also told that after opening up of the economy in the year 1991, it has become essential for us to take immediate steps in this direction, so that the student community is not deprived of the opportunities which may be available them in future. He also informed the audience about the UGC, which , according to him, "....also reacted to our suggestion and engaged Professor Hooda of Khurukshetra University to prepare a Model Curriculum for B.Com Education in the country. UGC has asked the University to implement it within one year."

Dr. P. K. Deka & Mr. Gautam Patikar of Dept. of Commerce, Nagaland University, Kohima in their paper "Restructuring Commerce Education at Undergraduate level : A challenge for North-East India" briefly touched upon evolution of commerce education in India starting with establishment of first commercial school in Madras way back in 1886. In North-East India commerce students comprise of less than 2% of the total commerce students in India. North-East region has got problems of its own like lack of infrastructure, hastily prepared back-dated syllabus etc. As there is lack of corporate culture in the region, commerce education needs different orientation depending on local needs. The authors conclude that total uniformity in the course content may not be possible at under-graduate level because of different nature of opportunities and problems in different states of the region.

Dr. Arindam Gupta, Dept. of Commerce with F.M., Vidyasagar University, Medinipur in his paper "Towards a Uniform Undergraduate Syllabus in Business Education" commented that, elementary economics/business organization should be taught from the secondary level. There should be one syllabus of business studies for 3 year at under-graduate level (UG). For hons. students there should be option for specialization. Instead of B.Com, the nomenclature should be Bachelor of Business

Studies (B.B.S.). At PG level, there should be M.B.S. equivalent to M.Com or M.B.A. or M.B.M. – alternative PG degrees in management. Too mush emphasis is given on accountancy. He made a brief review of the existing structure of UG and Management Syllabus under UGC. He suggested various measures towards a uniform UG syllabus in business studies.

Prof. K. C. Paul, Dept. of Commerce with F.M., Vidyasagar University, Medinipur in his paper "Uniformity in Commerce Syllabus : How much Desirable?" indicated that a number of changes had taken place in the post-independence period. New subjects have emerged. In fact, multiplicity of subjects have made the students "jack of all trades" rather than "master of any particular discipline". In framing syllabus uniformity as well as diversity [taking regional elements into consideration] should be properly blended.

Mr. Anil Kr. Saha, Dept. of Commerce, S.A. Jaipuria College, Kolkata in his paper "Business Education : Changing Patterns of the B.Com Syllabus with Special Reference to the University of Calcutta" said that, commerce education had taken a holistic form these days, it is no more confined to accounting only though it started with accounting then he made a summarized review of 80 years of commerce education starting from holding of 1st B.Com exam in 1923. During 80 years, syllabus has undergone changes 12 times. A survey conducted by the author among 300 teachers shows – almost 100% agree that the commerce education should be restructured both at PG & UG level. However, ultimate goal should be to produce effective human resources.

Mr. Pushpender Kumar & Dr. S. K. Sharma, Dept. of Bus. Admn., DEI, Agra in their paper "B.Com Education in Changing Scenario" opined that drastic changes should be made in curricula as well as in method of teaching. Instead of year-end exams, 75% weightage should be given on continuous evaluation system. 25% should be assigned to external and semester exams. There should be – i) class test, ii) quiz and iii) assignment. Inter-disciplinary approach and emphasis on communication skill are necessary ingredients.

Mr. Swarup Kr. Jana, Dept. of Commerce, Ramananda College, Bishnupur in his paper "Updating the Undergraduate Commerce Syllabi in West Bengal : The Demand of Time" said that the existing syllabus should be re-structured by reconciling with the syllabi recommended by Bodies like UGC, WHEC etc. There is no need of hons. in management as there are institutions offering BBA & MBA. All universities should have placement cells. Communication with the industry is important. Summer training, case study etc. should be introduced. Subjects like social accounting, environmental accounting etc. are necessary to solve the problem in future.

Mr. Prafulla Ch. Mohanty, Dept. of Commerce, Aska Science College, Aska, Orissa, in his paper "Commerce Education : Need for a Global Module" said that a futuristic hi-tech commerce education should be introduced to meet the demand and need of society, privatization and globalization. But unfortunately in his domain of operation due to lack of resources, IT and computer education are being compromised and emphasis is back on traditional subject like resource study.

At the end, Prof. K. C. Paul offered a hearty vote of thanks to the Chairman, Key-Note Speaker, the Paper-Writers and the Participants.

Santanu K. Ganguli, FCA

MARCH 28, 2003

3p.m. – 5p.m.

Second Technical Session

"Accounting Standards"

Mr. Somobrata Dutta, the Chairman of this session said that the best accounting practices should be practised across the globe. However, harmonization is a difficult task to achieve. In fact, implementing accounting standard in a particular place in itself is a difficult task because of functioning of various lobbies, pressure groups etc. According to him, ICAI has done a commendable job of bringing out 28 principle based (not rule based) standards.

Mr. Rudrajit Raychaudhuri, Head- Finance and Accounts, I.I.M., Calcutta, the key-note speaker of this session introduced Accounting Standards as uniform language of business to ensure comparability of financial statements of different enterprises with a view to provide meaningful information to various users of financial statements to enable them for making economic decisions. According to him, Accounting Standards describe accounting principles, appropriate accounting treatment of complex transactions with transparency and market discipline which also help the regulatory agencies in benchmarking accounting accuracy. He also described about the ICAI which has issued 28 Accounting Standards on the basis of IASB read with the domestic practice and need in India, among which Disclosure of Accounting Policies, Valuation of Inventories, Cash Flow Statements, Depreciation Accounting, Accounting for Amalgamation are of special importance. He also mentioned on the other side the saddest part of the whole thing – the worldwide corporate scams, in spite of Accounting Standards in existence. Finally, according to his conclusion, making of standard professional human being should be the primary objective of any country and the Institute for the successful implementation of any standard including Accounting Standard.

Dr. Sanjib Kr. Basu, Dept. of Commerce, St. Xavier's College, Kolkata in his paper "Harmonisation of Accounting Standards" said that in India, academicians, regulators and governments had been trying to harmonize AS with IAS. He has referred to the talk of World Accounting Standard Board. He has indicated the Norwalk Agreement between FASB and IASB is an attempt towards global harmonization.

Dr. Somnath Ghosh, Sree Chaitanya College of Commerce, Habra in his paper "Harmonisation of Accounting Standards – Global Scenario" discussed about the 30 'core standards' of IASC (now IASB). He referred to the fact that IASB is a private body and acceptance of standards prescribed by IASB is voluntary. Different country may have separate standards, e.g., USA where it is mandatory to adhere to 'US GAAP'. The movement of harmonization will be troublesome if different countries are to follow different standards.

Santanu K. Ganguli, FCA, Visiting Faculty, IIM Calcutta & National

Academy of Direct Taxes, Nagpur in his paper "Lease–Accounting vis-à-vis Income-Tax" discussed the salient features of AS 19 – Accounting Standard for Lease. He brought out the difference between financial lease and operational lease as incorporated in the said AS. In financial lease, ownership is transferred to lessee so far as accounting treatment is concerned. Under I-T Act, legal ownership remains with the lessor who is entitled to claim depreciation. Thus, this will create problem with regard to computation of accounting and I-T profit. Though circular and certain court decisions have indicated that treatment of AS-19 in finance lease is not *"incognito"* to the Income-tax, however I-T authority will do well to treat AS-19 as 'benchmark' for uniformity and convenience, as the same does not result in loss of revenue.

Prof. K. K. Purohit & Dr. M. K. Bhattacharjee, Dept. of Accounting, University of Chittagong, Bangladesh in their paper "Financial Reporting Practices by the Banking Companies of Bangladesh and IAS-30" remarked that there is no uniform standard of financial reporting practices by the Banking Companies of Bangladesh. They follow IAS-30 in the matter of preparation and presentation of financial statements of banking companies. However, IAS-30 is recommendatory and not mandatory. Lack of uniform practice results in distortion and financial statements of the banks are not comparable.

Ms. Lalita Banerjee, Dept. of Commerce, City College of Comm. & Buss. Admn in her paper "Accounting Standard Setting : A Gap between Theory and Practice" touched upon certain cases where US GAAP in USA have been tampered with. The ICAI is rather slow and sluggish in framing AS. If India follows IAS then uniformity will be achieved smoothly and quickly.

Dr. Arindam Ghosh & Ms. Bratati Das, Dept. of Commerce, Panihati College, Panihati in their paper "Accounting Standard" [presented by Ms. Bratati Das] evolution of IASB, ASB and different standards were discussed. A comparative study of IAS and AS was touched upon highlighting the similarities and dissimilarities.

Prof. K. C. Paul offered a hearty vote of thanks to the Chairman, Key-Note Speaker, the Paper-Writers and the Participants.

Santanu K. Ganguli, FCA

MARCH 29, 2003

10-30a.m.–12-30 p.m.

Third Technical Session

"Information Technology And E-Commerce"

This technical session was chaired by Prof. Sudipti Banerjea and the keynote paper was presented by Prof. A.K.Roy of I.I.T ,Kharagpur.

In his keynote address, Prof. A.K.Roy mentioned the key terms in Internet and the basic mechanism of Web Site operations. He also pointed out the various types of electronic commerce transactions like B2B, B2C etc.and their operational mechanism. Prof. Roy indicated the advantages of electronic commerce transactions over non-electronic transactions.

Dr. H.R. Venkatesha of Karnataka University, Belgaum; Dr. Milan Kumar Bhattacharjee of University of Chittagong & Mr. Surajit Sarbabidya of Southern University, Bangladesh; Mr. Partha Sarkar of University of Burdwan; Dr. Chitta Ranjan Sarkar of Suri Vidyasagar College, Birbhum; Mr. Amitesh Chowdhury of K.K. Institution, Jhargram; Mr. Samir Ghosh, Vidyasagar University, Midnapore and Mr. Pradipta Banerjee of Burdwan University, Burdwan submitted their papers in this session.

Dr. H.R. Venkatesha in his article 'E-Commerce: opportunities and challenges to consumers' focused on the strengths and weaknesses and threats of the implication of E-commerce in a regionally diversified country like India. After all he suggested on formulation of some business strategies to cope with the weaknesses and threats of implication of E-commerce for taking most of the advantages of E-commerce.

Mr. Surajit Sarbabidya along with Dr. Milan Kumar Bhattacharjee in their article 'E-commerce in Bangladesh: How far is it from destination?' mentioned the various advantages of E-commerce and in this context the progress of Bangladesh. They pointed out that the major weaknesses of Bangladesh in this respect are high illiteracy, language barrier, lack of awareness and expertise knowledge, poor telecommunication system, insufficient bank transactions etc. But the opportunities in Bangladesh in this respect are very young generation, tax-free IT expenditure etc. They have indicated that Credit Card transaction has introduced in Bangladesh in the year 1997, just after India. American Express Bank has issued these Credit Cards. Some NGOs in Gramin Bank have taken the opportunity to Introduce in Bangladesh.

Mr.Partha Sarkar in his article 'Analysing the strategic implications of E-commerce' indicated that there was an inter-relationship between technological environment of business organization like IT and E-commerce and business strategies. He also mentioned the right business strategies in a competitive environment to take most of the opportunities of IT and E-commerce.

Dr. Chitta Ranjan Sarkar in his article 'Information Technology and E-commerce: A new paradigm' indicated that the massive growth of IT around the world had enabled a country to accelerate of its economic growth keeping parity with global standard &prosperity. He pointed out the problems of IT and E-commerce transactions like taxability of income generating from E-commerce transactions, transfer-pricing mechanism of E-commerce transactions etc.

Mr. Amitesh chowdhury in his article ' E-Banking in India and securitisations' described the different activities performed by the private and public sector banks, their progress in India, their risk management (operational risk, reputation risk, other traditional banking risk like credit risk, liquidity risk and market risk etc.) policies and also put an insight in the barriers of implication in Indian context.

Mr. Pradipta Banerjee along with me in our article 'Information Technology and E-Commerce: with special reference to India' focused on the fact that the Accountants' effectiveness depend upon efficiency in handling IT beside of traditional accounting. We also tried to focus on the current development and implication of IT in Indian economy.

While participating in the discussion Dr. K.C.Paul of Vidyasagar University pointed out that E-Commerce transactions are paperless transactions and transactions have been done through net and therefore, put questions on judging the authenticity of the magnetic card signature and the possibility of transfer of goods through net .

At the end, Prof. Sudipti Banerjea, chairman of this session , commented that the topic of discussion of this session is a burning issue. Again he opined that quality of discussion was high and deliberations were lively.

Before closure of the session, Prof. K.C.Paul, Vidyasagar University, proposed a hearty vote of thanks on behalf of the organizing committee.

Samir Ghosh*

* Lecturer, Department of Commerce with Farm Management, Vidyasagar University.

MARCH 29, 2003

2p.m. – 4p.m.

Fourth Technical Session

"Financial Instruments in Capital Market"

Professor Pranab Kr. Bhattacharya, Professor, Former Dean, Arts and Commerce, The University of Kalyani, chaired the fourth technical session and Dr. Kalyan Chakraborty, Dean, VG School of Management, IIT, Kharagpur, presented the keynote paper.

This session was started with a message sent by Professor B.B.Chakraborty, Professor, I I M, Calcutta. The message was read out by Dr. Arindam Gupta, Head, Department of Commerce with Farm Management, Vidyasagar University before the house.

Prof. Bhattacharya, Chairman of the session, had given some introductory remarks and gave the theme of Capital Market in a very simple and lucid manner. From his vast experience in this field, he expressed that the investible surplus in

India mostly comes from household surplus, which goes to capital market through the different Financial Sectors. He highlighted the various risk-return factors of Indian Capital market and its perception for the investment in Capital Market . Professor Bhattacharya vividly discussed about the market efficiency of Indian Capital Market and concluded that the quality information to the investors plays the mostly vital role for bringing Indian capital market efficient.

In the keynote address, Dr. Chakraborty provided an extremely precise survey of the directions and movements, along with the general expectations of Indian Capital Market. He nicely classified the Indian Financial Market into organized, unorganized, primary, secondary, money market and capital market on the basis of transactions and activities carried out by the participants in the market. Dr. Chakraborty discussed the interrelationship among the rate of return, income security, liquidity, marketability, transaction costs, lock-in period, price volatility etc. in a lucid manner. He opined that for successful investment in financial market, some specialized knowledge is desirable. At the end, he concluded that with the strengthening of regulations, and their enforcement for investors' protection, the coming decade should see a rapid expansion of investment and trading in the Indian Capital Market.

This was followed by presentation of paper by Dr.Goutam Mitra, whose topic was "Derivative Instrument in Indian Stock Market ". In his presentation Dr. Mitra discussed the interrelationship between the stock price credibility and market prospects of different countries. In his discussion Dr. Mitra pointed out the different problems of derivative market, and also gave some suggestions for the very survival of the derivative market (eg. Margin trading, introduction of net settlement, reintroduction of stock landing and borrowing, amendment of income tax law etc). At the end he concluded that the investors awareness about the derivative market and removal of some misconceptions of the investors about derivative market are essential for the success of derivative market.

Mr. Arindam Das made the next presentation of paper. A high quality paper jointly written with Dr. Arup Kr. Chattopadhyay, Reader, Department of Commerce, University of Burdwan and Former Reader of this department, Vidyasagar University, entitled as "A test on Stock Market Efficiency based on Option Pricing in India" was lively delivered by Mr. Das .In his discussion he focused on at-the-money call option on Nifty Stock Index and pointed whether or not the volatility implies by the Nifty call option prices can predict future realized index return volatility .In discussion he mentioned that implied volatility is not a good predictor of realized volatility. At the end he concluded that unlike the develop countries, Indian derivative markets in general and option market in particular are either not efficient or the methods of pricing the derivatives are faulty.

While participating the discussion Dr. Arindam Gupta, Head, Department of Commerce with Farm Management and Dr. Saradindu Bhaduri raised some good questions which were nicely answered by Professor Purnendu Sekhar Das of the Dept. of Industrial Engineering and Management, IIT, Kharagpur.

At the end, Professor Pranab Kr. Bhattacharya, Chairman of the session, commented that the quality of discussion was high and the deliberation was lively.

Before ending the session, Dr. Arindam Gupta, Head, Department of Commerce with Farm Management proposed a hearty vote of thanks on behalf of the Seminar Organising Committee.

Tagar Lal Khan*

* Lecturer, Department of Commerce with Farm Management, Vidyasagar University.