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PERFORMANCE ANALYSIS OF CENTRAL PUBLIC SECTOR ENTERPRISES (CPSES) IN INDIA

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ABSTRACT

It has been the long standing practice to evaluate the performance of business enterprises based on financial measures. But a change in evaluation methodology has emerged where the researchers and social scientists have vehemently opposed the practice of concentrating on financial parameters only for performance evaluation and they have recommended for the use of other relevant aspects for this purpose. This new evaluation ideology is appropriate for enterprises like Public Sector Enterprises (PSEs) which have not been established solely for profit motive. Therefore, in order to examine the performance of an enterprise especially in case of public sector enterprises in India, both financial and social performance measures have been considered. In this paper, an attempt has been made to appraise and critically explain the performance of the Central Public Sector Enterprises (CPSEs) in India through different parameters like Profitability, Contribution to Central Exchequer, Internal Resource Generation, Value Addition, Employment Generation etc. with the help of relevant data for the study period from 1999-2000 to 2007-08.

Introduction

The Public Sector Enterprises (PSEs) became the major concern for India's state policy to play a significant role in the overall economic development process of it over the last few decades. The Industrial Policy Resolution, 1956 of the Government of India ushered the Public Sector Enterprises in India with the noble objective to accelerate the pace of economic growth of India. After a long period of cruel and rampant exploitations by the Britishers, India inherited at the time of its independence a destitute and poor agrarian economy and a weak industrial base, coupled with low level of savings and capital formation, poor infrastructural facilities etc. and the economy experienced severe inequalities of income distribution, acute unemployment problems and also grim picture of regional disparities and backwardness. At this juncture the economy needed a big push to overcome the deadlock.[1] Indeed, after a long tragic suffering from cruelty and inhumanity by colonial power there were various socio-economic problems confronting the country, which needed to be dealt with in a planned as well as in a systematic manner. In fact, among the imperatives before the Government were the removals of poverty, equitable distribution of income, generation of employment opportunities, removal of regional imbalances, accelerated growth of agricultural and industrial

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production, better utilization of natural resources and a wider ownership of economic power to prevent its concentration into a few hands. As such, at the backdrop of India's independence, it became inevitable to welcome the state's intervention in almost all sectors of the Indian economy because of the fact that the private sector had neither the capacity to provide necessary infrastructure in terms of available funds, managerial skill and technological advancements nor the requisite guts to undertake the risk involved in long-gestation period projects so as to keep pace with the state of socio-economic and political environment prevailing in the country. Given the type and range of problems faced by the country on the economic, social and strategic fronts, it became a pragmatic compulsion to set up public sector enterprises in various core and strategic areas as the vital instrument for achieving self-reliant economic growth. Therefore, keeping in view the inherent style of its socialistic pattern of society, the Government of India took a strategic leading role through its different Five Year Plans to help stabilize the economy as well as to provide necessary infrastructural setup to break the bottleneck of its developmental process. This philosophy of the government's direct intervention in nurturing and fostering the weak and the destitute economy and its gracious mission to help the economy stumble along the growth trajectory gave birth the incarnation of the Public Sector Enterprises (PSEs) in India with much fervour and zeal in commensurate with the diversified public interests and sentiments whereby the Government of India started investing a huge public fund in a phased manner in different core and strategic sectors of the economy on a holistic approach to achieve a self-reliant economy with balanced socio-economic development programmes to develop both the agricultural and the industrial sectors, to reduce inequalities of income distribution, to enhance the scope of employment opportunities, to induce effective utilization of scarce natural resources for the best interests of the society, to prevent concentration of economic power in a few hands to the detriment of the common mass etc.

The noble objectives of setting up of public sector enterprises in India may be highlighted as follows:

1) to ensure the rapid economic development and industrialization of the country and create the necessary infrastructure for economic development;
2) to promote redistribution of income and wealth;
3) to create employment opportunities;
4) to promote balanced regional development;
5) to assist the development of small-scale and ancillary industries; and
6) to promote import substitutions, save and earn foreign exchange for the economy.

It has been the long standing practice to evaluate the performance of business enterprises based on financial measures. But a change has emerged where the researchers and social scientists have vehemently opposed the practice of concentrating on financial parameters only for performance evaluation and they have recommended for the use of other relevant aspects side by side. This new evaluation ideology is appropriate for enterprises like Public Sector Enterprises (PSEs) which have not been established for profit motive. Therefore, in order to examine the performance of an enterprise especially in case of public sector enterprises in India, both financial and social performance measures have been considered because the public sector enterprises (PSEs) in India have been set up primarily with the public money for the noble objectives to alleviate poverty, to reduce the inequality of income distribution, to lessen the regional disparities and backwardness as well as to accelerate the pace of industrial development of India. Financial performance highlights the true and fair picture of an enterprise and fails to highlight the contribution towards social responsibility performance which is of great significance in case of PSEs.

Purpose of the Study

The main objective of the study is to evaluate and critically explain the financial and social performance of the Central Public Sector Enterprises in India through different parameters like Profitability, Contribution to Central Exchequer, Internal Resource Generation, Value Addition, Foreign Exchange Earnings, Employment generation etc. with the help of relevant data for the study period from 1999-2000 to 2007-08.

Data Source

This research work is mainly based on secondary sources of information. The required data have been collected from annual reports of the selected CPSEs in India published in Public Enterprise Survey; Govt. of India over the period of nine years i.e. 1999-2000 to 2007-08. For collecting relevant data for the purpose of conducting this work internet surfing has also been made for obtaining the requisite and latest information.

Methodology of the Study

For analysis and interpretation of data simple mathematical tools like percentages, averages, various conventional ratios have been used for measuring the financial and social performance of the CPSEs as a whole in India during the study period from 1999-2000 to 2007-08. In addition these annual growth rates (g) of each parameter have been applied at appropriate places.

A. Performance Evaluation through Profitability Analysis

The profitability of an enterprise is an important tool to evaluate the performance of that enterprise and it is the net result of a large number of policies and decisions. This concept may be defined as the ability of a given investment to earn a return from its use.[2] It may be considered as a relationship of the earnings to the total resources of an organization. It acts as yardstick to measure the operating efficiency of an enterprise. It also reflects the ultimate impact of various policies and decisions adopted by the enterprise on its business operation.[3] So far as the profitability aspect is concerned, the public sector enterprises are expected to give adequate return on enormous investment made in them. There are various conventional methods for assessing the corporate performance but the most common ones are net profit ratio, return on investment, return on owner's equity etc. Generally, profit is the most important measure of evaluating the performance of public sector enterprises and it can be viewed from different angles. The economists have taken the concept of gross margin to measure the return on investments to national economy but this concept of gross margin does not take into account the amount of depreciation or the usage cost of assets. However, the accountants have given more emphasis on the concept of gross profit that takes note of depreciation but avoid or overlook the interest charged. The tax collector gives more importance on profit before tax from the view point of revenue earnings. On the other, the investors are interested obviously with the net profit after taxes that are readily available to reward them by way of dividend for their investment and also for their risk taking.

In order to evaluate the profitability of the Central Public Sector Enterprises (CPSEs) as a whole in India, the amount of operating profit (PBIT), the amount of net profit have been taken and to assess the performance of them some important ratios like return on investment or return on capital employed (ROCE), return on net worth (RONW), net profit ratio (NPR) etc. have been used under this study. These ratios are explained below in details:

i) Return on Capital Employed (ROCE) : This ratio expresses the relationship between operating profit before interest and taxes (PBIT) and the amount of permanent funds invested in the enterprise. It is considered the more rigorous test of profitability and gives a clear picture of the efficiency of the firm's internal management. It enables the management to show whether the funds entrusted to the enterprise have been properly utilized or not. It also indicates how well an enterprise has used long term funds invested by the owners and creditors. The higher the ratio, the more efficient the enterprise is using its fund.

ii) Return on Net Worth (RONW) : This ratio shows the relationship between the amount of net profit after tax and the amount of funds invested by the owners. It measures the return on the total equity funds of ordinary shareholders. It indicates how profitably the shareholders' funds have been utilized by the enterprise. In other words, this ratio shows the degree to which the firm is able to convert profit into after tax profit that eventually can be claimed by the owners.

iii) Net Profit Ratio (NPR) : This ratio expresses the relationship between the amount of net profit of a particular year and the amount of sales for that particular year. It measures the percentage of each rupee sales remaining after all costs and expenses including interest and taxes have been deducted. It indicates the management's ability to operate the business with sufficient success not only to recover from revenues of the period, the cost of merchandise or service, the expenses of operating the business (including depreciation) and the cost of the borrowed funds, but also to leave a margin of reasonable compensation to the owners for providing their capital at risk. This ratio essentially expresses the cost price effectiveness of the operation.[4]

Analysis of Profitability of the CPSEs as a whole in India

Table-1 highlights the amount of operating profit (PBIT), net profit and their annual growth rate achieved by the central public sector enterprises (CPSEs) as a whole in India over the study period and also shows the results of the selected measures of profitability (i.e. ROCE, RONW & NPR) of them during the study period from 1999-2000 to 2007-08.

It is observed from Table-1 that there is a continuous increasing trend in the amount of operating profit (PBIT) with peak annual growth rate of 31.02 % in the year 2003-04 and the lowest annual growth rate of 5.54% in the year 2005-06 followed by a recovery of 21.54% in the next year (2006-07) and in the last year of the study the annual growth rate came down to 11.51%.

Regarding the net profit, Table-1 highlights that the amount of net profit increased continuously up to the year 2006-07 and it reduced in the last year (2007-08) of the study. The highest annual growth rate of net profit (65.96%) is observed in 2001-02 and the negative growth rate (-1.62%) is computed due to the decline in the net profit in the year 2007-08 as compared to the previous year (2006-07).

From Table-1 it is seen that the ROCE (i.e. PBIT as a percentage of Capital Employed) of the CPSEs as a whole in India witnessed an overall increasing trend up to the year 2004-05 and then it fluctuates slightly in the next three years. The highest ROCE over the study period is observed 21.49% in the year 2004-05 and the lowest ROCE of 13.95% is found in the year 1999-2000. Table-1 highlights the efficiency of the internal management of the CPSEs as a whole in India in utilizing its fund during the study period.

Table-1 depicts that the RONW (i.e. Net Profit as a percentage of Net Worth) of the CPSEs as a whole registered an overall increasing trend during the period under study. The RONW is computed at 8.92% in the year 1999-2000 which continuously stepped up and reached the highest level at 19.02% in 2004-05. In the next year i.e.2005-06, it came down to 19.54%. Again it increased to 21.07% in the year 2006-07 and then it reduced to 15.39% in the ultimate year of the study (2007-08). The overall rising trend in RONW of the CPSEs as a whole speaks of the increasing effectiveness of the enterprises' management in utilizing the resources provided by the enterprises as a whole during the study period.

Table-1 shows a fluctuating trend in the NPR (i.e. Net Profit as a percentage of Sales) of the CPSEs as a whole during the period from 1999-2000 to 2004-05 and then it fluctuates in the last three years of the study. This ratio is computed at 3.68% in 1999-2000 which went up to 8.73% in the year 2004-05. But it slightly decreased to 8.30% in the year 2005-06 and again, it reached to 8.41% in 2006-07. Again, it decreased to 7.38% in the last year of the study period. The ratio of the CPSEs as a whole in India indicates the substantial position to withstand the challenge of falling operating income or declining demand for their products.

Table-1

Analysis of Profitability of the CPSEs as a whole in India during the study period From 1999-2000 to 2007-08

Source : Compiled and Computed from Public Enterprise Survey, Govt. of India. Vol-I , 2007-08

B. Performance Evaluation through Internal Resource Generation

An economy can become a self-sustaining economy if it is in a position to generate internal resources and utilize the same for the furtherance of the development activities. To a developing economy like India where resource crunch is a normal and regular phenomenon the generation of internal resources to help mobilize fund for development and growth aspect is of prime importance. As the traditional and convention mechanism of fund mobilization with the help of fiscal policy measures in the form of both direct and indirect taxes has some obvious limitations, the endeavours to explore new ways and means for mobilization of resources have always been given top priorities. The Public Sector Enterprises (PSEs) in India have been entrusted with a pompous and flagrant duty to pave the way for industrial development of India by giving due emphasis to the generation of internal resources by the PSEs so as to amass wealth to provide fund for development purposes.[5] The internal resources generated by the PSEs in India are the aggregate of the amount of Depreciation written off, Deferred Revenue Expenditure written off and Retained Profit.

Analysis of Internal Resources Generated by the CPSEs as a whole in India

Table-2 shows the detailed results of the internal resources generated by the CPSEs as a whole in India over the period of 9 years (1999-2000 to 2007-08) wherefrom it is evident that the CPSEs have achieved a significant improvement and have played a commendable role in augmenting the internal resources to provide funds for the development and growth purposes. The internal resources are increased continuously throughout the study period. The total amount of internal resources in the form of the three components (i.e. Depreciation written off, Deferred Revenue Expenditure written off and Retained Profit) is Rs.35933 crore in the year 1999-2000 which has increased continuously and reached the highest level of Rs.99474 crore in the year 2007-08 showing a growth rate of 3.20% over the year 2006-07 in which the amount of internal resources generated to Rs.96394 crore. However, the highest annual growth rate is seen at 38.96% in the year 2001-02.

Table-2

Internal Resources Generated by the CPSEs as a whole in India for the study period from 1999-2000 to 2007-08

Source : Compiled and Computed from Public Enterprise Survey, Govt. of India, Vol-I, 2007-08

C. Performance Evaluation through Contribution to Central Exchequer

In a developing country like India, the Public Sector Enterprises (PSEs) have occupied a key position in the economy whereby the Govt. of India has come forward by providing necessary infrastructure and the capital outlay for setting up such enterprises in the core and priority sectors of the economy having a definite impact on the general public and the economy as a whole. These PSEs are obtaining a lot of advantages offered by the government to grow and survive under the support of the Department of Public Enterprises, Ministry of Heavy Industries & Public Enterprises, Govt. of India and are also enjoying social prestige and status in comparison to other enterprises in case of the private sector. Therefore, there is a question of some positive attitude arises in the form of the performance of social responsibility on the part of the PSEs. As a part of their performing social responsibilities, the public sector enterprises have been making substantial contribution to the central exchequer in the form of corporate taxes, customs duty, excise duty, dividend & interest etc. to mobilize fund for financing the needs of the planned economic development of India.

Analysis of Contribution to Central Exchequer by the CPSEs as a whole in India

Table-3 shows the detailed analysis of the contribution to central exchequer in the form of corporate tax, excise duty, customs, sales & other duty and dividend & interest etc. by the CPSEs as a whole in India over the period from 1999-2000 to 2007-08. From Table-3 is observed that there is a steady growth of contribution to the central exchequer by the CPSEs as a whole in India. The amount of contribution is highest (Rs.165994 crore) in the year 2007-08 as against Rs.148790 crore during 2006-07 showing an increase of 11.56% in 2007-08 over the year 2006-07. However, the peak rate of annual growth of contribution to the central exchequer is found at 30.46% in the year 2002-03.

Table-3

Contribution to Central Exchequer by the CPSEs as a whole in India for the period from 1999-2000 to 2007-08

(Rs. in Crore)

Source : Compiled and Computed from Public Enterprise Survey, Govt. of India, Vol-I, 2007-08

D. Performance Evaluation through Value Additions by the CPSEs as a whole in India

The economic as well as social justification of an enterprise lie in its contribution to the economy that may be measured in terms of value it has added. This is more relevant and appropriate to enterprises engaged in manufacturing/producing activities for delivering goods[6] or for rendering services in the social spheres. The CPSEs in India with only 5 in numbers during the First Five Year Plan Period rose to 242 as on 31st March 2008 with a magnificent track record of producing goods and rendering services for the great cause of serving the Indian economy and helping a lot in the achievement of industrial development in India by adding value to the economy.

Analysis of Value Additions by the CPSEs as whole in India

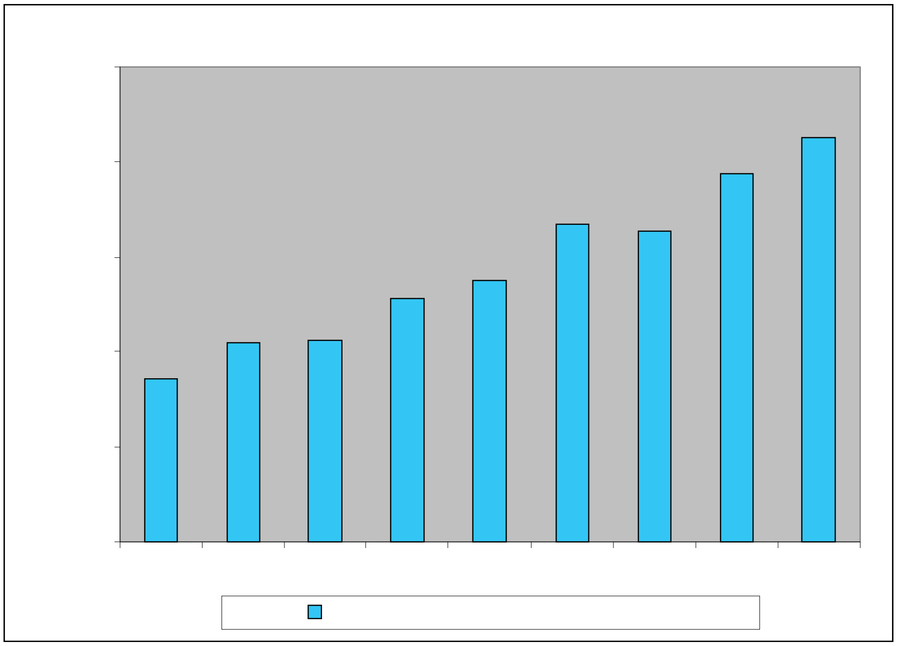
The data contained in Table-4 relating to value added by Central Public Sector Enterprises (CPSEs) as a whole in India exhibit an overall increasing trend over the entire study period (1999-2000 to 2007-08) except a small departure in the year 2005-06 over 2004-05 (total value added amounted to Rs. 163558.73 crore in 2005-06 as against Rs. 166819.78 crore in 2004-05) registering a negative growth of 1.95% and followed by a steep rise of 18.40% in the year 2006-07 over 2005-06 (actual value added in 2006-07 amounted to Rs. 193656.58 crore which is Rs. 30097.85 crore more than the value added of Rs. 163558.73 crore in 2005-06). However, the highest annual growth rate in value added by CPSEs in India during 1999-2000 to 2007-08 is observed at 22% in the year 2000-01. Chart-1 depicts the picture of the value additions made by the CPSEs in India as a whole during the period from 1999-2000 to 2007-08 and Chart-2 shows the rate of annual growth of value added of the CPSEs as a whole in India for the same period.

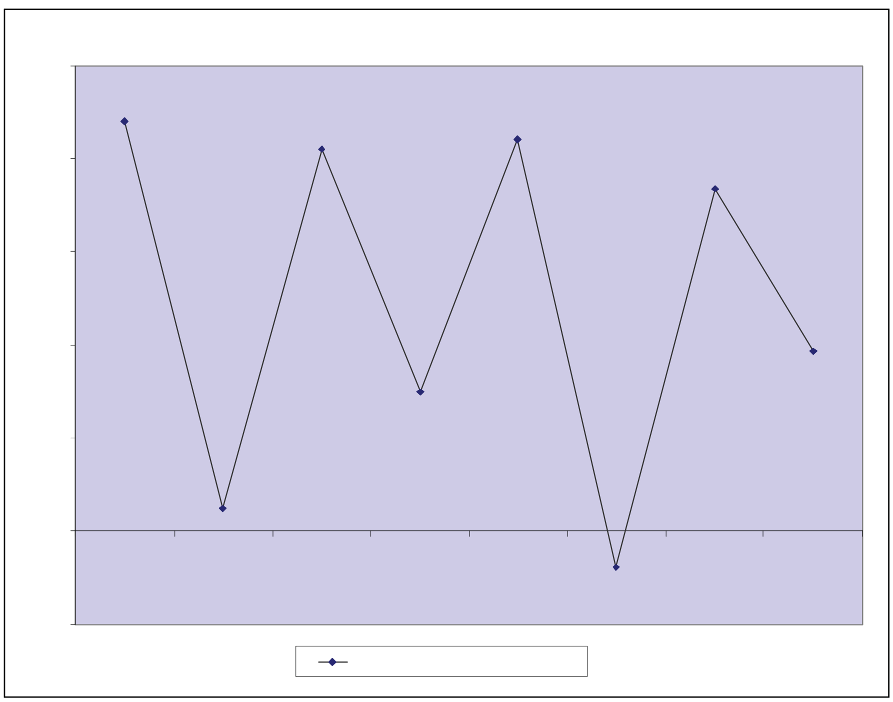
Table-4

Value Added by CPSEs as a whole in India during the study period from 1999-2000 to 2007-08

(Rs. in Crore)

Source : Compiled and Computed from Public Enterprise Survey, Govt. of India, Vol-I, 2001-02, 2004-05 & 2007-08





E. Performance Evaluation through Foreign Exchange Earnings by CPSEs as a whole in India

One of the most important objectives of setting up of the public sector enterprises was to encourage import substitution, save and earn foreign in order to mobilize fund for the development of the economy. Table-5 shows the foreign exchange earnings by the CPSEs as a whole in India for the period 1999-2000 to 2007-08. It is observed from Table-5 that the foreign exchange earnings was Rs. 19737 crore in the year 1999-2000 which was increased continuously throughout the study period from 1999-2000 to 2007-08 and reached to Rs. 74283 crore in the ultimate year (i.e. 2007-08) of the study. The peak annual growth rate (i.e. 52.80%) was found in the year 2006-07 due to the highest amount received by way of interest, dividend and other income as compared to other years of the study period.

Table-5

Foreign Exchange Earnings by CPSEs as a whole in India during the study period from 1999-2000 to 2007-08

(Rs. in Crore)

Source : Compiled and Computed from Public Enterprise Survey, Govt. of India, Vol-I, 2001-02, 2004-05 & 2007-08.

F. Performance Evaluation through the Employment Generation

The Public Sectors being the pace setters have assumed the role of bringing out progressive elimination in regional imbalances and promoting balanced growth. The pace of economic development of different states and regions has not been uniform over the years owing to some historical and other factors. Even the states which are fairly well developed have pockets and areas which have not been able to keep pace with the progress achieved elsewhere. The lack of industriliasation in different parts of the country is often due to the factors such as non-availability of raw materials or other factors of production. A concentration of industries in certain areas has also been due to the ready availability of raw materials, skilled labour, power, water supply etc. which has made the areas distinct from the other areas providing greater employment opportunities to the local people making the areas industrially developed and thus aggravating the imbalances in regional development. The states in which the Public Sector Enterprises are located became the direct beneficiaries and stand to gain manifold in terms of removal of regional imbalances, increased employment opportunities, growth of small scale and ancillary industries, resource utilization etc. Therefore, industrialisation can play a vital role for the society in correcting the regional imbalances and accelerating the pace of industrial growth. But the fact that in the major areas of the country which have remained backward and undeveloped is both a challenge and an opportunity. The government of India has taken an important step to set up public sector enterprises for the extension of the scope of employment opportunities in the said backward regions or areas. In this context it may be highlighted that the setting up of PSEs in India has resulted in generation and extension of substantial employment, both direct and indirect, in the states where the units are located.

The data contained in Table-6 relating to the employment generated (excluding casual labour) by the Central Public Sector Enterprises (CPSEs) as a whole in India exhibit an over all decreasing trend over the entire study period (from1999-2000 to 2007-08). It was 18.06 lakh in the year 1999-2000 which came down to 17.40 lakh in the year 2000-01 and reached the highest level at 19.92 lakh in the year 2001-02 registering the highest annual growth rate of 14.48% and then started decreasing with negative annual growth rate up to the last year of the study period.

Table-6

Employment in the CPSEs as a whole in India during the study period from 1999-2000 to 2007-08

Source : Compiled and Computed from Public Enterprise Survey, Govt. of India, Vol-I, 2001-02, 2004-05 & 2007-08.

Conclusion

Taking 5 CPSEs with a total investment of Rs. 29 crore as on 31st March 1951, the number of CPSEs as on 31st March, 2008 has reached to 242 with a total investment of Rs. 455409 crore. The analytical study of the performances of CPSEs in India with the help of empirical data over the study period from 1999-2000 to 2007-08 exhibit a continuous increasing trend in case of profitability, internal resource generation, contribution to central exchequer, value addition and foreign exchange earnings while an overall decreasing trend is found in case of generation of employment. But unfortunately or otherwise the same is not duly reflected as apprehended in the overall Indian economic scenario. As such, the performance of CPSEs has unleashed the scope of side criticism on many occasions. However, these criticisms against CPSEs are substantially squashed if we have a close look to the social responsibility performance of CPSEs during the said period. Over and above this, there is no denying the fact that the PSEs, in general, had to face many divergent constraints. Despite a number of serious handicaps like high initial capital-intensive projects, locational disadvantages, long gestation period projects, lack of technological advancement etc. the CPSEs in India have been set up and run from independence commensurate with the socio-economic status as well as the needs, aspirations and the sentiments of the common public. Accordingly, all such steps and bold actions were taken at the State level to lessen the degree of regional disparities, to upgrade the overall economic conditions of the weaker and the poor sections of the community as well as to reduce the inequalities of income as far as practicable, keeping far away the inherent profit motive of business enterprises for the greater interest of the common mass.

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