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MS-92

03240

MANAGEMENT PROGRAMME

Term-End Examination

June, 2015

MS-92 : MANAGEMENT OF PUBLIC ENTERPRISES

Time : 3 hours

Maximum Marks : 100
(Weightage : 70%)

Note : *(i) There are* ***two*** *sections :* ***Section-A*** *and* ***Section-B.***
(ii) Attempt ***any three*** *questions from* ***Section-A,*** *carrying* ***20*** *marks each.*
(iii) ***Section-B*** *is* ***compulsory*** *which carries* ***40*** *marks.*

SECTION - A

1. In the context of Public Enterprises differentiate between the concept of Socialism and Mixed Economy models of economic growth.

2. With reference to Public Enterprise interface, discuss and comment upon the important government machinery which interacts with public enterprises.

3. Analyse the impact of various reform measures on public enterprises after the reforms of 1991.

4. Describe the role of the Department of Public Enterprises in the Management of Public Enterprises in India and offer your comments.

5. Write short notes on **any four** of the following :
   (a) The Global Trends of PEs
   (b) Financial Audit
   (c) Gantt Charts
   (d) Public Accountability of PEs
   (e) Benefits of Privatisation

SECTION - B

6. **Read the case given below and answer the questions given at the end of the case :**

THE MANPOWER MESS

An estimate made by the Government has revealed that there are 3,00,000 redundant employees in central public sector undertakings. At an average of ₹ 2.5 lakh paid to each employee as compensation under Voluntary Retirement Scheme (VRS), the centre will have to find ₹ 7,500 crore for the purpose in the next two to three years. As the public enterprises have to borrow other required money from the Government, cash outflows on account of VRS packages will invite financial disaster for even profitable enterprises in the short-term.

What has happened to VRS scheme in various PEs ? There is a need to probe further to find out the real impact of this scheme. A few instances are narrated below :

(a) Bharat Heavy Electricals Ltd. (BHEL) which employs around 70,000 people, withdrew the VRS package offered six months ago, when the management discovered that many of the senior and best qualified workmen and officers were availing of the scheme to join the competition of BHEL in the private sector. By then, the company had lost skilled and experienced employees numbering 300.

(b) The India Tourism Development Corporation earned a profit of ₹ 2.39 crore during 1990-91. This year, the corporation has registered a financial loss of ₹ 5 crores after making ₹ 112 crores as VRS payment to 1,000 employees who left the company.

(c) NTC envisages reduction of workforce by about 80,000 from the current level of 1,70,000 workers. A lumpsum payment of about ₹ 80,000 to 1,00,000 apart from other legal dues is promised in VRS. The plan provides a sum of ₹ 689 for the Golden Handshake.

(d) Indian Drugs and Pharmaceuticals Ltd. made retrenchment payments totalling ₹ 12.5 crores early this year. The company lost 450 employees of which only 20 to 25 were workmen. One officer received a total package of over ₹ 4 lakh when he bid farewell to the company. The VRS will ultimately decrease its wage burden from 25 percent to 21 percent of total costs.

(e) In Railways a surplus of about 4,50,000 persons was estimated. About 75,000 employees are due to retire at the end of 1992 and another 72,000 this year. The railways, both on financial and political considerations, have decided against the VRS option and have instead chosen to achieve the reduction through natural attrition.

(f) Hindustan Machine Tools offered two types of VRS packages to the employees of its sick lamp division at Hyderabad. One for those employees who had completed 15 years of service and another for those of less than 45 years of age. The result once again is that the company lost its most technically-qualified personnel.

(g) The situation is no different at Scooters India Ltd. Lucknow where half the 3,040 strong staff left after the VRS was introduced. As the technicians, engineers and the skilled and qualified workmen have opted for greener pastures, the company's operations crippled. The accumulated losses have mounted up to ₹ 261.14 crores on a paid-up capital of ₹ 7.81 crore.

(h) In case of Richardson and Cruddas, 400 employees had taken early retirement in the last three years. The immediate overall impact of this has been dramatic fall in profits by half from ₹ 15 crore to ₹ 7.5 crore.

(i) Nearly 3,000 workers from the Bombay Docks have recently accepted a VRS package.

(j) Hindustan Aeronauticals Ltd. Bangalore, aims at trimming the workforce from 39,000 to 35,000 by 1994. As there was a labour surplus of 30 percent, the management is confident to get the option of VRS of 400-500 employees by the end of 1993.

(k) While the officers and workmen of Bharat Electronics Ltd. Banglore, have reacted favourably to the introduction of a VRS package, they vary of its financial implications for the company.

(l) There are 1,826 employees in Vayudoot. Technical estimates clearly point out that more than one-third of the existing staff is required. Employees have started resigning and now the staff strength has come down marginally from 1,826 to 1,680.

While the official package for a retiring worker from a central PSU has been set at an average of ₹ 2.5 lakh, depending on the financial health of the companies concerned, workmen are likely to receive significantly different amounts. The employees of a sick mill have accepted just ₹ 75,000. At the other end, a general manager of Damodar Cements recently received a VRS package of ₹ 7 lakhs. It is also being said that there are no BPE guidelines to the implementation of VRS packages. There is also a feeling amongst chief executives of PEs, that "there seems to be no solution to the problem of the best and the brightest leaving". The Economists argue that the indiscriminate implementation of VRS package will further widen the Government's revenue deficit. On a very conservative estimate, interest alone on the ₹ 7,500 crores required for payment of VRS in the public sector will total ₹ 1,125 crores per annum.

A major study conducted by the Department of Public Enterprises of the Ministry of Industry in Dec. 1991, identified sick public sector enterprises. The study itself has recommended ten central units for outright closure. Two of them are the Fertilizer Corporation of India and the Hindustan Fertilizer Corporation. The VRS package for these two companies has been worked out at ₹ 178.66 crores and ₹ 139 crores respectively. A recent World Bank estimate recommended the closure of 22 PEs. It would cost 1,82,137 jobs with an estimated VRS and retirement compensation of around ₹ 2,000 crores. The VRS introduced by the NTC (North and South Maharashtra) in Sep. 1992 has attracted 3,850 out of 46,000 employees in 34 mills. The scheme offered 39 days pay for every completed year of service or the product of the monthly emolument and the number of months remaining in service, whichever is lower. The scheme was officially open for employees who had completed 40 years of age or 10 years in service. The company aimed at reducing the workforce by at least 16,000. The Cawnpore Textiles Ltd. with a paid-up capital of ₹ 60 lakhs, has accumulated losses of ₹ 17.99 crore. As the weaving activity of the mill is proposed to be closed, ₹ 16 crore will be paid as VRS to 1,570 workmen who will have to go. At Elgin Mills, which has a paid-up capital of ₹ 1.09 crore and accumulated losses of ₹ 137.8 crores, the pinch will be more severely felt.

As a result of the closure and amalgamation of some of the mills and conversion of others from composite to spinning mills, a number of looms will be given to workers and worker co-operative for nominal sums. Easy bank finance is also promised to workers besides other self employment schemes. These schemes would give employment to 30,000 to 40,000 of the displaced workers. However, the scheme has ignored marketing problems for these workers. The recommendation to revive the National Jute Manufacturing Corporation envisage ₹ 100 crores VRS package for 11,107 employees. Similarly, a drastic trimming of 11,160 jobs is recommended for the Burn Standard Company Ltd. that Manufactures decks, helidecks and platforms for offshore drilling to make this company (₹ 75.84 crore of accumulated losses) viable once again. In case of Bharat Process and Mechanical Engineering Ltd., the VRS package for 482 out of 890 employees costed ₹ 23.85 crores. It has also been estimated that the costs for closure of the unit were only ₹ 15 crore. In case of BBUNL, 6,000 workers opted for VRS. Even then, the companies with BBUNL have a staff strength above industry average.

The crux of the problem lies in the manner in which the VRS packages are drawn up. Universally applied, they are a huge strain on resources and in some cases they are also bankrupt viable units. "What is often left is the dead wood and the hollow infrastructure ?" Says Ashok Rao of the National Confederation of Public Sector Offices Association. The Government has to keep in mind the long-term objectives. If the final objective is clear, whether to revive or close a particular unit, whether to retain them, or sell out to the public sector, related ground work for VRS packages can be made. Mr. A.N. Narang, of NACOA also adds. "Until then, the VRS is a mere fire fighting exercise that has left the purpose for which it was introduced unfulfilled". It is cause of severe cash outflows that will cost government more than just money.

"The root of the problem lies somewhere else". Says a chief executive of a public sector enterprise. As an example, The Delhi Transport Corporation has won a productivity award three years in running. Despite its performance on the roads, it has been written off. Out of its staff of 41,161 only a few conductors, have been found to be surplus. Yet, it has the case of IDPL and SAIL. What is wrong with them ? How can they ever make profit when unrealistically low price structure is existing for them ? The Government does not want to touch this issue on account of political and social considerations.

Questions :

(i) What are the critical issues involved in the case narrated above ?

(ii) Where does the root of surplus manpower problem lie ?

(iii) What are the alternatives available before the Government with regards to surplus manpower looking at the scenario of 2005 and onwards.

(iv) Do you have any suggestions to offer regarding VRS packages in public enterprises ? Do you have any alternative strategy to deal with the issue of surplus manpower ? If yes, please state clearly.