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FUTURE CHALLENGES OF PUBLIC SECTOR ENTERPRISES

Proceedings of an International Expert Meeting

Edited by Štefan Bogdan Šalej

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FOREWORD

by Štefan Bogdan Šalej[1]

Dear Readers,

The papers contained in this double issue of the ICPE Journal are the integral part of the combined efforts undertaken at the ICPE to launch High Level Symposium on Future Challenges of Public Sector Enterprises as traditional event, to promote repositioning of public enterprises in new economic and social framework and to extend publishing of Public Enterprise Quarterly Journal.

Throughout its long and rich 35 years history the ICPE has been always recognized as a key intergovernmental institution focused on fostering research and educational activities on public enterprises. We are important added value and development partner of many countries. Therefore, in the last year's celebration of the ICPE' 35th anniversary, we were determined to organise Symposium and to gather eminent experts, high officials of international organisations and governments, diplomatic corps, successful businessmen, representatives of media and other stakeholders to take part in the dynamic discussion about future challenges of public enterprises.

The essential topics discussed at the Symposium were issues of public sector enterprises (PSE) and their future development. Over the last few decades, we were witnesses of the wide swinging of academic reasoning and economic policy concerning the role of the public sector and public enterprises from global wave of privatizations in eighties and nineties toward massive state intervention during the recent crisis. However, despite the past and probably the future volatile destiny of public enterprises, there is a little doubts that, one way or another, they will continue to exist and to play significant role in the economy development. In addition, recent stories of state-owned enterprises in emerging-market countries clearly illustrate that public sector enterprises can match the performance of their private-owned counterparties and become the world class players.

The rise of the public enterprises and the significant change of global economic conditions open the new debates about state ownership and state-managed enterprises in the economy and the weight and identity of private partners in the

[1] Director General, International Center for Promotion of Enterprises

state-industry relationship. Hence, the real challenge for the market economies of the twenty first century will be to redefine their public-private mixture toward sustainable, market-oriented and socially responsible organizations. To achieve these goals, various issues like new forms of public private dialogue and partnerships, corporate governance and social responsibility, as well as clarification of the objectives and performance measurement of the PSE have to be frequently discussed.

The politicians have to understand altogether with public officers running country development, that much important for them and even for bigger politically gains, are well managed PSE. They have to replace clientelism and corruption with smaller deficits and more jobs. One cousin or friend running inefficiently public sector company can destroy thousands of jobs. So, they have to bet on efficiency and competitiveness to have better political gains. And history shows us that such bet in many places is worth. The public sector enterprises have to be responsible, fiscally healthy, competitive, and productive and they have to be best managed companies since their shareholder basis is nation wide and always the largest one in the country.

The Symposium was the unique opportunity for the PSE experts and other interested parties to exchange information, ideas and opinions on future challenges of PSE and to promote their repositioning in new economic and social framework. Our distinguished moderators and panellists, coming from the different countries with different backgrounds, international expertise and experiences, have appointed their large knowledge to successfully meet the objectives of the Symposium as follows:

- to raise awareness of all concerned stakeholders on the importance of the public-private dialogue for overcoming the difficulties with economic, public and political nature of PSE activities
- to analyze the PSE corporate governance and social responsibility policy frameworks aiming to identify best PSE practices as benchmarks for evaluation
- to influence policy making by providing opinions and conclusions about repositioning of public sector enterprises as a service global welfare and human development improvement

We were honoured to have representatives from all over the world - experts from 9 countries across 5 continents, and two international institutions, OECD and the World Bank, so we might say that this Symposium covered even larger number of countries including host country Slovenia as member state of EU and OECD as well all multilateral financial agencies. Here we proudly present transcriptions of their valuable speeches. The structure of the publication is divided in three sections, in line with the topics discussed at the Symposium:

- Role of the PSE in the country development
- PSE – private sector dialogue and corporate social responsibility
- Case studies of PSE' management practices

In addition to the transcription of speeches, excellent paper on financial performance of public sector enterprises in India is also presented. I would like to thank to all distinguished participants for their valuable contributions to our Journal. Also, I would like to invite everyone who is interested in issues of public enterprises to become our partner and to take contribution not only in our Journal but also in our Symposium, technical meetings and other activities that we are organizing. Finally, I would like to acknowledge and to express deep gratitude to the Ministry of Finance of Slovenia and Minister Franc Križanič as the high patronage of the Symposium, Faculty of Economics in Ljubljana for the support of the Symposium and ICPE Research Team, Messrs. Aleksandar Zdravković and Draško Nikolić, for the organization of the Symposium.

THE ROLE OF PUBLIC SECTOR ENTERPRISE IN NATIONAL DEVELOPMENT

Rubens Ricupero[2]

As we gather here today under the impact of almost daily governmental interventions to deal with the difficulties of the current economic situation, there is no denying that the circumstances of the hour, that is, the financial crisis and its aftermath, do create a more favorable and realistic climate for the discussions that we are about to undertake. A few years ago, the first panel of the symposium would certainly be named not "the role of PSEs in national development" but rather "is there a role for PSEs in national development"?

The mere fact that we are taking for granted that there is, indeed, a role for PSEs in development shows how much the world has changed since the days when Public Sector Enterprise sounded as an archaic and sinister remnant from the dark ages.

After the Americans began to translate GM as Government Motors instead of General Motors, it became unnecessary to expand on the reasons that led many governments to create Public Sector Enterprises in the past.

When governments in the United States, the United Kingdom and others had to rescue gigantic mortgage corporations, huge banks and complex insurance firms regardless of the financial impact on the budget and the debt, it would seem a waste of time to explain why the State is sometimes forced to intervene in the market to save it from its own excesses.

It was shocking to discover during the current financial crisis how many of the problems that used to feed the conventional attack on public enterprises also apply to private enterprises, often on an incomparably larger scale.

Take, for instance, the main financial argument in favor of public enterprise privatization during the 1980s: their propensity to accumulate crippling levels of debt that accounted for a significant share of many developing countries governments' public debt.

[2] Ambassador, Former Minister of Finance of Brazil and former Director General, UNCTAD

Public enterprises debts that added to governments' deficits generally accumulated over a considerable length of time and at least in certain cases had a worthy socially equitable justification: the need to provide services to disadvantaged sectors of the population or to poor and distant regions not attractive to private companies.

While on the contrary what we witnessed since 2008 was the sudden explosion of debt to trillions of dollars, the plunging of deficits to bottomless depths of two digits just to make up for something that is devoid of any redeeming social feature: the greed and irresponsible actions of private individuals of immense wealth.

The near to three trillion dollar losses caused by the financial meltdown, not to mention the anonymous suffering of millions of honest people who lost their jobs or homes or both, dwarf by far the total sum of all the debt piled up by public enterprises over decades in developing countries.

And what about the other frequently deserved accusations against public enterprises: corruption, inefficiency, lack of transparency?

In terms of corruption and criminal behavior, it would be hard for any public enterprise to match the culprits of the big corporate scandal of the early 2000s in the United States: Enron, WorldCom and a long list of infamous companies.

As for inefficiency, lack of transparency or accountability, the disastrous record of rating agencies, of accounting and auditing firms, of banks in general, before and after the Sarbanes-Oxley Law, offers a sobering illustration that those vices are in no way confined to public sector enterprises.

I could well mention many other similar examples but I do not want to overprove the point. My intention is only to redress the balance and to return the pendulum to a more reasonable position.

The danger now is not so much from market fundamentalism but from State fundamentalism. In the wreckage of so many grievous mistakes of the pre-crisis era – the belief on the alleged self-regulatory capacity of markets, of the infallible superiority of private firms over public companies in all cases and under every imaginable situation – we run the opposite risk of turning back the clock to the idealization of the public sector and to the idolatry of the State.

Our duty instead is to keep a balanced and measured approach to our panel's subject. The need to expose and deconstruct the ideological excesses of market fundamentalism should not lead us astray and make us forget that public enterprises do have unsolved and difficult challenges ahead.

Before advancing a couple of ideas about ICPE's possible contribution to overcoming the challenges, I would like to focus again on our panel's subject: public enterprises' role in national development.

I come from a country where practically no one would dream of denying that public enterprises can play a useful and sometimes irreplaceable role in promoting development.

In the long history of public enterprises in Brazil we had our own fair share of companies that failed. However, some of the success stories were so outstanding that they present a strong case in favor of a cautious endorsement of the public formula provided the right conditions are present.

All the Brazilian success stories in public enterprises share a few common features. First, they were the only possible existing alternatives to help Brazil identify and develop favorable natural or human conditions into actual and effective competitive advantages in the marketplace.

At a time when there was neither availability of domestic private capital nor the possibility of attracting foreign capital, State companies stood as the indispensable leverages to start the creation of the sectors that grew and improved in time to become the national champions in terms of the country's competitive advantage: steel; iron ore and mining; deep-sea off-shore petroleum drilling; aircraft manufacturing and even agriculture.

A successful privatization program took place at a later stage when those initial conditions had somewhat changed and national domestic capital became ready to take up the challenge. In some areas such as steel, iron ore mining and aircraft manufacture, the former public enterprises became Brazilian private companies with remarkable gains in capitalization, cost reduction and effectiveness as global players in the case of Embraer, or Vale.

In other fields where political or economic conditions were rather different, petroleum and agriculture research, for instance, public control remained the preferred arrangement for organization and governance.

Secondly, those state companies were relatively free from corruption. Fortunately, some of their founding fathers and leaders had strong managerial credentials and introduced meritocracy as the criterion for recruitment and advancement. Besides, they succeeded in instilling in the upper management, the middle staff and the workers a powerful and shared common company mystique as well as a feeling of ownership.

Thirdly, there was from the start a clear priority in terms of human resources investment, with emphasis on constant learning, in-house training and capabilities' improvement.

Fourthly and finally, in each and every indisputable case of success, there was a well defined policy for innovation, cutting-edge research and technological development.

Very often in the literature about public enterprises, failure is attributed to technological shortcomings. In the Brazilian experience, all the successful companies have been technological innovators: in railway and waterways logistics for iron ore; in deep-sea exploitation for petroleum; in aircraft design adapted to Brazilian conditions in the case of Embraer.

Even in the case of the most impressive Brazilian success in international trade, that is, agriculture exports, although the production and exporting are in private hands, the key to the transformation was a public company, Embrapa, the Brazilian Enterprise for Agriculture Research.

In the 1970s, when most if not all advanced economies were reducing public expenditure on agriculture research, the Brazilian government took the opposite route.

It was this company that developed the seeds, plant varieties and cultivation techniques that made possible the opening of the agricultural frontier and converted Brazil in the country that, according to a recent joint OCDE and FAO study, will have the most significant expansion in agriculture production (40%) in the period from now to 2020.

If the Brazilian private farmers have at their disposal the most advanced technology for tropical agriculture in the world, this is largely due to intensive public investment in research. Embrapa is now trying in two different research stations located in Africa to replicate the Brazilian success in food production for African savanna conditions.

Instead of abstract reasoning, I brought these concrete cases to your consideration in order to highlight what I believe are the main lessons to be learned from the evolution of public enterprises over the recent decades.

The first and foremost is that national experiences are not only extremely different from country to country but equally diverse and sometimes contrasting even within a same country, varying according to the quality of the policies implemented in each enterprise and changing with the passing of time.

This is why governments should remain attentive to constantly review public enterprises' performance in terms of their actual and tangible contribution to development, which is not as simple a task as it sounds. In contrast to the maximization of profits and the creation of value for the shareholders that constitute the overriding purpose of private firms, a public company must be judged by many other considerations in terms of social equity or environmental responsibility.

The challenge in the case of State enterprises is then to identify non-market tools that can provide for a sort of a specifically designed model for public review that serves as the equivalent to cost efficiency, profitability and other conclusive performance results used in private firms. A comprehensive performance review should always be accompanied by a long term feasible strategy for permanent innovative reform and modernization.

Its starting point has to be the setting of clearly defined missions, measurable and verifiable goals and broadly accepted performance criteria. It should include the objective assessment of financial and other kinds of assets and liabilities, the introduction of internationally adopted accounting and financial reporting standards and a thorough examination of governance structures.

Far from providing excuses for underperformance, the public nature of an enterprise should be translated into an enhanced level of rigorous and demanding pattern of economic as well as of social responsibility. There should be no tolerance for management inefficiencies, the distortion of productive structures as an easy conduit for redundant job creation, cronyism and political patronage, corruption and the absence of transparency.

The constant search for improved performance is a sure guiding principle in undertaking the review of State companies. Such a review has to produce a perceptible upgrading in governance. With this aim in view, it is necessary to establish a politically objective Board of Director composed of qualified governmental representatives balanced by independent outside members.

High quality governance is to be complemented by effective management reforms capable of giving PSEs a much more focused development mission, ensuring the recruitment of professionally competent and well-trained senior management and skilled employees. Transparency and accountability will only be achieved with the requirement of internationally recognized audit, accounting and financial reporting procedures.

Under these guiding principles, reviews may well produce profound changes in the way public companies operate, leading to different degrees of adoption of market mechanisms. Commercialization of Public Sector firms, outsourcing of services and goods, Public-Private Partnerships are some of the possible outcomes of such reform undertakings.

It might perhaps be said that all these requirements sound as a very tall order and I totally agree. The fact of the matter, however, is that there are no shortcuts or easy ways of achieving a level of excellence either in private or public administration.

As I have been trying to suggest in this opening statement, the time for ideological discussions for or against Public Sector Enterprises is over. They are very much part of our landscape and this endless crisis in many countries represents an additional guarantee that State companies and State activism in economic matters are here to stay, possibly for a long time.

Our job in this Symposium is to help the International Center for Public Enterprises to reinvent itself as a useful and reliable source of advice and orientation for governments forced to face up to hard times. There is no scarcity of extensive analysis of Public Sector Enterprises' experiences over recent years, nor are we lacking in sound and widely shared conclusions about best practices and valuable initiatives.

Let us then approach the subject with a pragmatic frame of mind, devoid of any kind of ideological prejudice, open to all ideas and examples that can assist ICPE in its irreplaceable task of helping public enterprises the world over to reach ever higher and more demanding standards for efficiency and effectiveness at the service of development.

Thank you.

ROLE OF PUBLIC SECTOR ENTERPRISES IN COUNTRY DEVELOPMENT

Peter Harrold[3]

First of all congratulations to the ICPE on its 35th anniversary, and it is a great pleasure to be here today on this panel. We are focusing on public sector enterprises or state owned enterprises as we often refer to them in the international organizations.

World Bank and its approach to public enterprises swung as much as any perhaps. We were strong supporters in the sixties and seventies of their creation and of heavy investment programs both in infrastructure and also, of course, in industry. From the mid eighties to the end of the nineties we were among the great advocates for privatization, but more than that; in the case of infrastructure, there was a belief that the all state needed to do was to get the policy right, and private investment would follow to meet all needs. Since 2000, the realization that this was naive has grown and that the correctly played role of the state is beyond getting the policy right, and that the role of the state in investment and development was critical.

The philosophy of public enterprises has now changed. There is no need to for the state to control the "commanding heights" as we used to say. There is no need to privatize for the sake of transforming the state itself as we saw in the Central Europe in the early nineties. They needed to change enterprise ownership in order to have a different kind of state from a political perspective. There is now no more market fundamentalism, not even in the United States which has found the necessity to become the effective owner of the two of the largest private institutions in the country, in insurance and in automobile manufacture. So it is all about efficiency and about meeting national needs, meeting the people's needs. Thus SOEs policy is now free from political ideology that and that's a very important change.

However, one of the dangers is to think about the issue just in terms of public enterprises - do we want the public enterprises or don't we? Rather, we may wish to think about public goods and public enterprises. There are public goods of which the state must ensure production, and to which the state must ensure that all the people have access. There are many obvious ones we talk about: vaccinations, pest control, for example, there are many cases in infrastructure and in finance.

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[3] Country Director, Central Europe and the Baltic Countries, World Bank

Who produces the goods to which access must be ensured, public enterprise or private sector enterprise? That can be determined as a matter of policy that depends largely on the existence or the absence of capacity in the country concerned: not as a question of political philosophy but rather the practical reality of the need for such goods. I would like to mention two sectors as an example - the road sector and the railway sector - because this is something that in Central Europe is really dominating a lot of countries' thinking at the present time, is prominent in a lot of actions of the present time, and perhaps most importantly a lot of budgets.

Road infrastructure has become the single largest item in public investment programs throughout Central Europe, boosted, perhaps we might say, through the role of the European Union, with its Structural Funds and Cohesion Funds, and with the European Commission's correct desire to promote a road network that interconnects all countries of the European Union; something we are very far from at the present time, but the correct objective.

At the same time we have many countries which have an endowment in their railway sectors and sadly, if we look across the railways sector in Central Europe, they are in general declining, they are facing shrinking demand in many cases, especially for passenger transport, and in many countries they are up to their eyes in debt.

In the road sector what we have tended to say, what most governments have tended to say, is that only the state can do the development; a few high density toll roads here and there get developed by the private sector but it's pretty limited. We also tended to say that there is only limited scope and limited tolerance for tolling. We accept tolling on the very good roads, and now in Slovenia, as I saw yesterday, there is this very convenient method of electronic capture of tolls, unlike most of America where you need longer periods of time to throw quarters into a slot, a nice example of your adaptation of technology. But most road infrastructure is therefore paid via taxation, some of it by targeted taxation, such as through petroleum taxation, or general taxation and government borrowing.

In the case of railways, and this is especially the case in Central Europe and South Eastern Europe, we have tended to say since 1990 that rail companies should survive on their revenues and on their ability to borrow with the guarantee of the state. So, what has this actually led to in the case of these two critical areas of public enterprise policy? The fact is that road transport is much cheaper in terms of the charge to the public than the railways. The state, in fact, massively subsidizes roads and has scarcely subsidized railways directly for many, many years, and consequently we have seen an associated massive increase in road transport and declining use of rail; and this is in the face of environmental aspirations in Europe, which might suggest that the opposite would be a much more desirable result.

The railways and also urban transport companies which often face similar constraints, are losing lots of money and are acquiring a lot of debt because in general they have relatively few direct budgetary transfers; the governments prefer that they borrow rather than get transfers, and they can get guarantees from the state, so they are up to their eyes in debt. And we see in Bulgaria, Romania, Hungary, Croatia and Poland that the railway companies are close to bankruptcy. And as a consequence they have limited ability to invest in the modern technology that would make them more competitive.

We also see there is a strong and not necessarily appropriate state role in the governance of the state owned transport enterprises. In exchange for the guarantees, states tend to dominate the boards of these enterprises and sadly not always following the excellence criteria that the Ambassador was suggesting should be applied when selecting such directors.

So, how would you run your approach to PSEs if you used the public goods approach instead of the more traditional PSEs oversight approach? First, you would define the public goods requirement of the sector and you would pay for these by budget transfer, instead of paying by forcing the enterprise to lose money, which you either might cover by transfer or more generally recently by guaranteeing the borrowing. So, you define the policy that you wish the enterprise to follow, and you explicitly pay for it by transfer: that would be a public goods approach. These transfers can then be neutral between either public or private enterprises, it makes no difference. That would permit you to leave the enterprise to be run on commercial lines. The fact that it is producing public goods does not then have an impact on its profitability. And you can apply the same requirements for efficiency and sound management, whether they are public or private. There are many cases of the same principle being used for a private enterprise to produce these public goods simply by saying the state will pay for them; why not use the same approach for the public enterprises?

And if you do that, you can then clearly separate the public policy functions of the oversight ministries. The state role is the sector policy and its public goods consequences and the enterprise role is the efficient production of the goods and the services that we want such enterprises to produce.

I hope these thoughts are useful and I wish the symposium every success.

STATE OWNED ENTERPRISES AND ECONOMIC DEVELOPMENT

Hans Christiansen[4]

First thank you very much to the ICPE for this invitation; it is, to my knowledge, the first time that OECD has participated in an ICPE-sponsored event. We are most honored to be here today. Please allow me to say couple of words about OECD. It is an organization that everybody seems to think know about, but few people actually do. You may have heard that the OECD is a think-thank based in Paris, an exclusive club grouping together the rich countries of the world? That would already be three mistakes in one sentence.

Point one – we are not representing only rich countries. It is fairer to say that we are talking about mostly industrialized countries with a market economy. We count among our membership Mexico, some transition economies and Korea, none of which were rich countries when they joined OECD.

Secondly it is not think-thank. Parts of the organizations work as such, but most of what is produced by OECD is joint output from committees that meet regularly in Paris. The committees give high level government officials from member countries an opportunity to express their positions on various issues.

And point three, in terms of exclusiveness, we recently embarked on the process of accepting five new member countries. Four have already become full members, namely Chile, Estonia, Israel and Slovenia. Russia is in the middle of the accession process.

Let me finally say on the issue of how OECD operates that we also work extensively with non members. We work bilaterally with countries that wish to draw OECD experiences. We also establish regional roundtables in order to emulate the OECD process offer OECD methods to local forums, which are free at their own discretion to apply these in their regional context.

I represent the secretariat of the OECD Working Party on State Ownership and Privatization Practices. This is an OECD forum which brings together representatives of the state ownership agencies in OECD member countries where

[4] Senior Economist, Corporate Affairs Division, OECD

they exist or otherwise the ministries principally involved in SOEs. And perhaps the most important role internally of that working part is to oversee a key OECD instrument, namely the OECD Guidelines on Corporate Governance of State-Owned Enterprises (the “SOE Guidelines”), which is an OECD recommendation – legal instrument which is offered to interested parties as voluntary good practice guide for reorganizing the SOEs sector. In two sentences I said “legal instrument” and “voluntary”. The point is that for any government or for any enterprise these are purely voluntary recommendations and best practices. However one thing is not optional: every OECD government has to formally associate itself with the recommendations. In order to get into the Organization they have to show that they are both willing and able to do so which is one reason why accessing process normally takes a couple of years. There are numerous legal instruments.

The topic of today’s discussion is the role of SOEs in economic development. The first thing you have to ask yourselves is whether the SOEs economy is of significant importance for economic development. It’s always good to enhance the efficiency of SOEs, but if it is a negligible part of the economy, frankly who cares? Very few people have a handle on how big the SOEs sectors are across countries. OECD did a couple of recent pilot studies of non member countries and most recently of our own member countries. The latter is still ongoing.

One conclusion was that in developing and emerging economies SOEs currently make up from 10% to 40% of the economy. The trend is everywhere declining, but not necessarily rapidly. I will give just one example. In China ten years ago we have estimated that SOEs economy was 40% of the total economy and now it is 30%. That looks like a significant decline, but when you consider the growth rate of that economy, the actual value added of the SOE sector has doubled over the period. In the OECD countries on average the SOE economy is much smaller, from 2% to 4% of total economic activity. But, the SOEs are found in very concentrated segments of the economy – in network industries, extractive industries and in some case in finance. Those sectors, of course, remain important for the competiveness of virtually all other parts of the business sector in our member countries.

Let me mention, in the context of an ongoing debate about using SOEs as a “development vehicle”, that although that I agree 100% that in some sectors there are market imperfections, externalities and other things that merit state interventions – including through state-owned enterprises – OECD’s main take on the SOEs reform in development is trying to prevent SOEs from acting as a break on the development process.

In many countries, including our member countries, there is still considerable waste and efficiency losses coming up through SOEs sector and the first priority should be to address this in a meaningful way. Also, econometric studies that will be familiar to many of us tend to conclude (based on the emerging and transition economy data) that the efficiency in private enterprises tends to be one and a half times larger than comparable SOEs.

That said, I wouldn't oversell the previous point because it is mostly based on the privatization studies. When governments privatize state-owned enterprises, they obtain efficiency gains but very often they also use the opportunity shed some public policy obligations that show up on the bottom line. So probably it is high-end estimate. But even if it is less than that, and we are talking about countries with the third of the economy in the hands of state-owned enterprises, there is a massive loss of productive resources that need to be address to promote economic development and growth.

What may be the main sources of inefficiency? I would subdivide them into two areas: the ones that impact on the performance of the individual SOEs, and the ones that have broader economic implications.

I think that, in most countries regardless of their level of development, the main remaining problem is sort of confusion on the role of state. States are often not good at separating their roles as owner, regulator, and purchaser of SOEs produce. If governments establish an SOE then that entity must run as an enterprise. If it is seen as the extension of the general government sector, it is more efficient to keep it as a department of government.

Secondly, there's been a tendency to see SOEs as national champions that must be protected from competition, especially from the "dangerous foreign kind" of competition. Let me just say that we all know that keeping SOEs from competition is rarely a recipe for efficiency.

And thirdly, as Mr Ricupero already mentioned, there has been widespread use of SOEs as source of political patronage and job creation which lead to both overstaffing and not very competent management.

Finally, the use of SOE to move fiscal items off balance sheets regularly blows up in the face of government. On the economy-wide scale, there are two additional main sources of inefficiency coming out from the SOEs. One is that they tend to mess up the competitive landscape. If they are subsidized or in any way benefit from government favoritism – or if they have to pursue some public policy objectives which are not adequately compensated – then it is normally not possible to have proper competition in that sector.

The sectoral allocation of SOEs is also important because, as I mentioned, they tend to be located even in the richest OECD countries in those sectors that have possibly the greatest downstream implications on the competitiveness of the number of private industries.

If that is so, what could be done about it? Mr. Ricupero mentioned privatization. OECD does not necessarily or as a general rule recommend privatization. However, when countries choose to privatize, we have some recommendations on how this can be best done. This came out earlier this year as "Privatization in the 21st Century"[5]. At the same time we definitely hold that privatization is not panacea. In particular, successful privatization often depends on having a good level of competition in the sector where one privatizes SOEs. If this cannot be obtained, then the privatizing country at least needs independent sectoral regulators in the relevant sectors. If it is not possible either, then privatization often leads to the opposite what governments want to achieve.

Something that has been extremely popular in OECD and other countries recently is introducing of SOEs to stock exchanges. This is politically convenient, because governments may say to the public, "we still have a controlling stake in the company" while at the same time submit it to the market discipline and the standards of good governance applied to listed enterprises. Some countries were also successful in developing stock markets by the same tool.

And finally, if this route is not possible, one option that remains for governments is to reform SOEs in the areas already mentioned: in legal regulatory practices, government oversight and internal governance of those enterprises. And this is, of course, where we recommend OECD's SOE Guidelines as a high-level tool for governments. They offer advice on reforms in areas from the regulatory and legal frameworks to the roles of the boards of directors, the role of minority shareholders, the role of stakeholders and accountability and transparency. This instrument is well known, and I won't go through it, but I would finish by addressing just two issues.

First, what kind of reforms have we seen over the first six years of the SOE Guidelines' existence? I remind you all that, unlike many other OECD instruments, this one was deliberately phrased at a high level of aspiration. It is a consensus document which basically says, "this is what we would like to do, if we could". It is unlikely that any one single OECD member country has fully implemented the SOE Guidelines to date. But the encouraging thing is that almost every piece of SOE sector reform that we have seen since that instrument was developed has pulled in the recommended direction. So, it might not be a holly grail, but it seems to have helped focus some minds.

The main reform efforts in the OECD area over the last six years have panned out amid a continuum of corporatization: moving state-controlled commercial activities

[5] OECD (2010), *Privatisation in the 21st Century: Summary of Recent Experiences*, Paris.

from government departments, to statutory corporations, to limited companies, to listed companies. This is an ongoing process in many countries.

Moreover, there has been a stronger centralization of the ownership function in a lot of countries, at least concerning the commercially operating SOEs. A lot of countries have SOEs that work as a sort of public policy entities, which often follow different rules. However, the ownership of state-owned commercial operators has become more and more centralized – or at least coordinated at the central level. There has also been a stronger separation of regulation from the government ownership function. In many countries in the old days you might have enterprises owned by a ministry that were also regulated within that ministry. These days they might be still owned by the ministry, but they are typically regulated by independently sector regulators. Many countries have also implemented strong measures to support SOE board work, including nomination of independent directors, integrity of procedures, board autonomy, as well as board training and evaluation. Also, a growing number of countries have moved to aggregate reporting on the SOEs so that public can get a direct "snapshot" of what is going on in the state-owned enterprise sector.

Finally, I want to make just a little bit of PR for a recent publication - an OECD guide on transparency and accountability in SOEs (the "TrAc Guide")[6]. If, perhaps, the SOE Guidelines provide high level recommendations to policy makers and civil servants, the TrAc Guide is more of an implementation guide for the people who have to do the job within the ownership agency and ministries.

The name is a bit misleading because the TrAc Guide reads essentially as continuous improvement cycle guide for state ownership agencies. The main elements are: First you set objectives, identify public services or special duties for SOEs, formulate specific company objectives and decide what performance indicators shall be used. Secondly, you review and audit what you think that you found in order to be sure. Thirdly, as an ownership agency, you report to parliament, to the public. Fourthly, you turn to the enterprises to make sure that they disclose in an appropriate, properly audited and timely fashion. Finally, having done all of this, you sit back and say: "Ok, what have we learned from this". Then you set new or revised objectives and the process starts again. I should stress that this is not a prescript by the OECD Secretariat,; it is fully based on the hands-on experiences of OECD's member countries.

[6] OECD (2010), *Accountability and Transparency: A Guide for State Ownership,* Paris.

THE ROLE OF PUBLIC ENTERPRISES IN A COUNTRY'S ECONOMIC DEVELOPMENT, THE CASE OF SOUTH AFRICA'S SOES

Talent Molaba[7]

On behalf of the South African Government, it gives me pleasure to participate in this conference on one of the most critical issues affecting the future of State Owned Enterprises (SOEs) all over the world. We truly appreciate the invitation and hope that our interaction today will usher in an era of cooperation and collaboration between South Africa and the ICPE as different stakeholders both in and outside government strive to understand the developmental contribution of public enterprises.

As you may be aware, the role of public enterprises in economic development is one of the most topical discussions taking place in emerging markets such as South Africa. It is perhaps partly because of this reason that the organisers deemed it fit to invite us to participate in this gathering. It is an issue that has been the topic of serious ongoing examination and analysis both globally and in our country.

In recent times, globalisation, liberalisation and privatisation, and ongoing structural transformations of national economies contributed to an expansion of the private sector, on the one hand; and downsizing of the public sector including dismantling or divestment of public enterprises, on the other. These initiatives seemed to have been undertaken to accomplish two main objectives – giving more space to the private sector to function as the main engine of growth and at the same time, by downsizing and divesting inefficient public enterprise operations, saving costs and generating revenue. However despite being divested or dismantled, SOEs continue to occupy significant roles in many countries, both developed as well as developing. Additionally, SOEs remain in many developing countries, especially in Sub-Saharan Africa, the principal suppliers of input services such as energy, telecommunications and infrastructure which are critical in terms of under pinning the attainment of developmental goals. They are also instrumental in the provision of services relevant to the attainment of the developmental priorities as expressed for example in the Millennium Development Goals (MDGs). Often due to the slow growth of the private sector, SOEs remain the main sources of employment in many countries. These varying conditions warrant a careful review of the role the SOEs can play in socio-economic development of countries. However, what is also crucial is that new SOEs must perform efficiently and effectively and where appropriate, under market conditions. The reform agenda of SOEs includes, inter alia, the issues of

[7] Deputy Ambassador of South Africa

management, structures, performance monitoring and feedback arrangements including exploring options of private/public partnerships etc.

The current debates on SOEs do not seem to concern any more whether SOEs have a role to play, but what that role should be and how it should be played. It is against this background that I would like to focus my attention on the South African situation as concerns the above mentioned debates.

Given South Africa's past history of injustices and inequalities, the Constitution requires that the state should take proactive action to ensure that such injustices of the past are overcome in a manner that ensures fairness and equity. With the above challenges in mind, the South African state has declared itself a developmental state. This is a state characterised by the ability to plan, invest and form strategic partnerships. It is a state that is actively involved in the management of the economy and this is done, interalia, through the public enterprises in order to provide itself with a vehicle to drive investment in market-driven sectors such as transport, telecommunications, electricity, aviation and forestry. According to this line of thinking, the biggest advantage of the SEOs is that they enable consistency in terms of strategic approach to development. Their ability to partner with the private sector because of a common underlying logic as they are both commercial entities is their biggest advantage. Furthermore, they have proven to have motivation and ability as commercial enterprises to drive dynamism, skills and technological development across the entire supply chain of production process.

The SOEs clearly derive a mandate from the Constitution and the long-term growth strategies as encapsulated in the vision of a developmental state. These enterprises are very specific and powerful instruments for achieving developmental goals because they are commercial entities with the task of achieving strategic national economic objectives. In this regard, a core role is to provide strategic network infrastructure to ensure security of supply in the South African economy through driving investment in economic infrastructure and in intermediate and advanced manufacturing capabilities. They form a significant portion of South Africa's vital industries that drive the economy. Inputs such as electricity, transportation and telecommunications are dominated by SOEs.

Having briefly considered at the more theoretical level, the function of the SOEs in the South African economy, it is important to also look at their achievements so far in our economic development. Despite the challenges (which I will talk about later) associated with the performance of South African public enterprises, these companies have, in recent times made commendable impact on the growth of the economy. The most recent example that comes to mind is with regard to the role the Transport Operator of South Africa (Transnet), South Africa Airways (SAA) and the Airport Company of South Africa (ACSA) played in providing high class service during the 2010 FIFA World Cup. ACSA was instrumental in ensuring that all airports were ready before the World Cup. As a result of the efficiency demonstrated by ACSA, the newly built King Shaka International airport was completed right on schedule. The Oliver Tambo International airport and other small airports in South Africa's 2010 World Cup host cities were all renovated to world class standards as well.

In the same vein, Transnet through a partnership with the South African Ministry of Transport and other private sector companies has been successful in the provision of reliable transport during the World Cup and the SAA in tandem with National Express (our domestic and regional airlines) were extremely instrumental in the provision of air transport. Finally, the National Road Agency oversaw the long-term project of overhauling the entire national road infrastructure. In spite of the challenges facing our national electricity supplier, ESKOM, there had been a regular supply of energy during the time of the World Cup. These developments not only ensured the upgrading and development of critical South African infrastructure that will underpin ongoing economic development, but also created jobs and developed skills and capacities that can be translated into the further development of our country. It is estimated that around Euro 480 million was spent on upgrading airports and 325 Euro million on upgrading roads and rail infrastructure alone. These were timely and needed investments in the broader context of South Africa's long-term growth strategy.

Ladies and Gentlemen, in addition to the contribution that the South African SOEs are making to the South African economy, these enterprises have been involved in some projects in the African continent and, therefore, are contributing also to the African Renaissance. A good case is the involvement of ESKOM in the provision of electricity in countries such as Mozambique, Namibia, Zimbabwe, Angola and Malawi. In addition, ESKOM is also utilising technical skills to provide advice and planning to electricity generators in a number of African countries.

Way forward for south Africa's SOEs

Since coming into power in 1994, Government has had to consider and evaluate the role of SOEs carefully and, up until now, has retained its ownership because of the critical role they play in achieving developmental targets. They are even more relevant today as we strive to achieve the five key national priorities identified by President Zuma in 2009, which include, inter alia, the creation of decent work and a more inclusive economy.

In the historical context, the establishment of the SOEs in apartheid South Africa created the conditions for skewed development aims, irregular infrastructure and service delivery, and a host of structural problems. Since 1994, these have limited the ability of the SOEs to adjust to new requirements and new policies. Some have struggled to overcome the legacy of debt burdens, historical underinvestment in key infrastructure and technology, and previously unmanageable corporate structures.

Therefore, we have instituted strict guidelines regarding issues such as the performance and appointment of Boards, as well as their accountability.

Another priority and challenge has also been to ensure that the SOEs are both financially sustainable and that they deliver on Government's developmental objectives. In doing this, there needs to be a balance between Enterprise interest and National interest. Therefore, there is a differentiation between the responsibilities of the shareholder (Government); the Board and Management; and the policy and regulatory responsibilities.

Also, in order to evaluate and assess the performance and future of SOEs in meeting South Africa's developmental and economic needs, President Jacob Zuma, on the 12 of May earlier this year announced the appointment of the Presidential State Owned Enterprises (SOEs) Review Committee. It is intended that that the process will be completed by November 2011.

In conclusion, I want to argue that in spite of the challenges regarding the management of the SOEs, these enterprises remain powerful vehicles for economic development of emerging markets. In fact the recent financial crisis has once again demonstrated that markets are not holy cows. With this in mind, it is imperative that governments improve capacities in the management of public enterprises to avoid further disasters associated with poor management of public resources by the invisible hand of the market.

THE EVOLUTION AND ROLE OF PUBLIC ENTERPRISES IN THE EU AND SLOVENIA

Nevenka Hrovatin[8]

So as a professor I will probably shed some light on the theory and evolution of public enterprises and also on their role in the EU, not only now but also historically. So first of all I would like to say that public enterprises are defined in the EU legislation as public undertakings. We find this name - public undertaking. So the EU legislation says that the public undertaking is one over which public authorities may exercise directly or indirectly a dominant influence. And dominant influence directly can be exercise not only through the majority of ownership as we all know but also through the control of the majority of voting rights and also that the government, local or state government can appoint the at less half of the members of the boards, management boards, supervisory boards, board of directors. In Slovenia we also adopted the same definition of public enterprises.

Public enterprises in the past in the Europe developed for many reasons. One of the reasons was to reduce the market failure. So it means there were a lot of natural monopoly firms that would abuse their monopoly power if they were in the private hands. It was easily to reduce the prices, keep the prices low and also to extract profits from these firms. Dynamic efficiency was also important because capital markets missperformed as well. There was a case, for example, of British Leyland, British firm that was nationalized in 1975 and the main reason was really to restructure the firm because as we all know Rolls Royce, Land Rover and so on that was really important for Britain. Also income redistribution was important - rent withdrawal and fiscal arguments, good working conditions for workers and higher wages as still we all know that in many countries where in public sector there are still better conditions and higher wages than in private sector.

And one very important reason in Europe was also centralized long run economic planning. So development of some basic industries, let say a British state decided to nationalized electricity industry and gas in order to provide coordinated development and also the same technical solutions across the firms and this was also one of the main reasons for the Italians in sixties, when they decided to nationalize their electricity industry.

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Regional development was also very important. One example is in Italy-Mezzogiorno, the southern countries. So they tried to stimulate development of underdeveloped south through public firms. We all know there were some Fiat firms near Naples and so on that was taking care of that. Also industrial reconstruction was important after a second world war. In Austria for example where the industry was destroyed and that's why they decided to nationalize most of the manufacturing industries. Also the banking sector, telecommunications, energy sector, mines, and so one. So these were the main reasons in the past.

If we look at organizational forms of public enterprises in the EU we can find three different forms. These were state enterprises that were directly managed by some governmental bodies so they were not really in independent firms but they were managed by some governmental ministries or their departments.

Then there were state sponsored enterprises where the firms had managerial autonomy but they were subjected to a special law. And then there were state owned companies, this were many companies in commercial sectors. Renault was also that kind of company. Procordia, for example, food company in Sweden and British Leyland as well. So in these companies the government had the majority ownership.

As regards the EU legislations on public enterprises an important principal is neutrality, concerning the ownership structure. So the EU really doesn't distinguish between privet and public enterprises so they don't prefer any organizational or ownership form. Public enterprises should also be treated equally concerning subsidies, competition law and so one and as we all know subsidies are more or less prohibited now in EU. Direct subsidies to the enterprises are prohibited in EU. There are some exceptions regarding services of general economic interests and this are mainly infrastructure services so if there are some particular tasks sign to them there could be some exceptions but as a say the key principal is the level playing field, the equal positioning of both private al public firms.

The whole world face the huge privatization trends starting in nineties and especial between 1995 and 2000. There were most privatizations across the globe and also in Europe. And if we look at the importance of Western Europe in this trend we can see that 53%, so more than half all privatization processes in the world where in the Western Europe. So a huge privatizations wave concentrated there.

Regarding the sectors, telecommunications were the leading industry with 46% of all privatizations and there are also power sector was important, transport, oil and gas and also financial sectors, banking. If we look at the largest firms that went through initially public offering between 1961 and 2003, we can see that 10 out of 19 biggest privatizations also took place in Europe. I can just name a few firms, the larges IPO's: Volkswagen, British Petroleum, British Aerospace, British Telecommunications, British Gas, Deutsche Telecom, France Telecom… How important this firm were, is also whiteness by the fact that the government tried to keep the influence, the majority saying in the governments of this firms. So the government kept the golden share and let say also in Czech Republic in Cesky Telecom it represented 18% of the whole capital market, Hungarian Telecommunication Company 17% of total market capitalization, MOL also in Hungary and some other petroleum energy or gas firms the government try to keep the golden share.

But as we all know the golden share is not very supported by EU anymore, it's only allowed in very special circumstances. It shouldn't be an obstacle to the free movement of capital, it means especially to direct investments. It's only allowed for some security reasons, public security, security of energy supply and so one and not for economic reasons and should be envisaged in national legislations and also should be removed when these reasons cease to exist. Also European court of justice challenge some of the golden shares in some biggest privatized companies let say in Italia ENI, STET and Telekom Italia, in France Societe Nationale Elf Aquitaine, and also in some Spanish firms in energy Repsol, Endesa, Telefonica, Argentaria and in the British firm, British Airports Authority. So it means even the government now decides to privatize the firms, it can not keep no ownership prize and the golden share anymore, because it's not really appreciated by the EU. And I think this is also one of the reasons that the government still try to preserve some shares in strategic industries, maybe at least 25% of the shares.

What were the main reasons for the privatizations in Europe? We already heard about efficiency, economic efficiency. But if we look at different studies, maybe not so much for central eastern Europe, but if we look for at some studies, world wide studies we can see that they can be conducted on different levels. They could be done for national economy as a whole and there of course public enterprises are less efficient that private enterprises because many times we compare their performance in terms of profitability, but we all know that profitability is not the right measure. But if we look at some industry studies, where the firm operates at the same environment also regulatory environment, many studies have find out that public firms can also be more efficient. A good example is electricity distribution industry, for example in USA, also some water industries and so one.

But any way I think that there is a belief that public firms are less efficient and this was important reason for privatization. There were also other arguments: less government interventions, withdrawal of the government from day to day intervention, increasing emphases on supply sizes measure, attraction of private capital to finance public goods and services. Also important reason was popular to build popular capitalism and work of shareholdings so it means many peoples should become shareholders so they would support privatizations and also the development of national capital markets. Reduction of trade union's power was an important argument with Margaret Teacher in Britain.

Globalization and internationalization was also important reason and of course we shouldn't forget about Maastricht Criteria and stability and growth pact that requires certain level for the governmental debt and deficit. And also EU liberalization policy proved to be very important way towards privatization. Of course there were many arguments against but I think don't have enough time to cover that as well. So if we look at the public enterprises at the EU now, we may say that we find that enterprises mainly in services of general economic interest as they say, so this are basically infrastructure services or in utilities. Let say in postal sector we have 22 out of 27 postal offices are in public hands. In transport we heard about railways, highways, airports, airport carriers, are also important still, ports and so on.

In electricity this sector is very interesting because we have many very big and very efficient public firms. Let me just name EDF Électricité de France, for example, and we have also let say Czech firm CEZ, we have BOT-Polish firm, Vattenfall - Swedish firm and so on and some others. In telecommunications broadcasting banking and financial sector, Also the government kept at least some shares even if the firms were privatized and also in local utilities there are some countries like Germany, Poland, Sweden, Italy, Latvia, Austria, France were we have many public firms. Germany - we are all familiar with Stadtwerke, and also in France they have special arrangement with local infrastructure publicly owned and there are different consensual agreements.

So now these enterprises are very important for investments and for example they account for 64% of total EU investments. But this doesn't mean they are all public firms, this are firms in this sectors of general economic interests - water, telecommunications and so on. They are very important as stabilizers in financial crises. Only 1 out of 5 of social services faced turnover downturn in financial crises. They are important for sustainability goals in energy, water, and transport sector. They are important for employment and also for research and development.

And what are in my view the challenges for public enterprises nowadays? So first of all they operate in a very different environment than they did in the past. So we face very diverse ownership structure across countries and industries, let say water, electricity - they can be organized as national firms or firms owned by local utilities or private firms. There was a huge liberalization wave in the EU that leads to the break up incumbents, monopoly, downsizing and so one. Some of these firms are very regulated so we have reregulation in Europe in networks themselves. Corporatization is one of the key challenges we heard this what is OECD doing now, also in Slovenia for example we are adopting, we are in the process of adopting the law on the corporate governments of public enterprises and I think that the right recruitment of managers and staff in public enterprises and also the appropriate remuneration is the key to the efficient operation of public firms. Because if they operate in regulated industries, not in commercialized competitive sectors, then it's still possible that public firms can be very inefficient. If we don't have right regulatory structures, if we don't have very strict regulators that would look at the costs of this firms. So it's still possible even in this environment to be inefficient.

Also what important is that some of they are very big players in the international market and they have taken over many firms in other countries, other European countries like I already mentioned EDF, one of the most efficient firms. And also I think that EU also forces somehow maybe more public with some of the legislative provisions and also with some of the decisions of European Court of Justice. Let say in Slovenia, we decided to create a special public enterprise for electricity distribution, because we don't want to give this sector to an open tender, so to open the door to everybody also from the private sector, to run the electricity distribution companies and the EU really requires that only if the companies are the 100% state owned could get the concessions without public tender. So, also in Slovenia we adopted a public private partnership law that requires the reorganization of public enterprises, and they can get the right to do the job without the tender, only if they are 100% public. So in many local utilities in Slovenia now, they decided to pay back private investors with minority shares, of course, and to increase realty the public ownership. And also the German Stadtwerk questioned these decisions about EU because they say there shouldn't be really any regulation that would say in which form the firms should operate.

And also in financial crises of course we will also have probably more public, through some nationalization of private banks and also through some banks at least partly owned by the government that are now getting shares in some private companies that went bankrupted or that faced huge financial troubles. So thank you very much

THE ROLE OF THE PUBLIC SECTOR ENTERPRISES IN THE INDIAN ECONOMY

Anil Chandy Ittyerah[9]

I would like to start by thanking the ICPE for giving us this rare opportunity to share the platform with such eminent persons. I should also like to thank the IIPA for letting us go so far away from home, at a time when there was a lot of work to be done at home. I will confine myself to India and public enterprises in India as they re-surge and develop in our contemporary world. I heard my esteemed panelists speaking on Europe, and on South Africa, and would also like to thank the Chairman of the panel for giving us a very well articulated and comprehensive overview on public sector enterprises and their role in the current global scenario.

Public enterprises in India have been, perhaps, the most important strategic component of the Indian economy. They have over the years enabled balanced regional investment that is a very important concern for such a big country as India. There are many regions in India where the private sector requires a very high level of incentives and other "concessions" in order to be induced to operate. The public sector has taken up these challenges and has taken the lead in bringing about balanced regional growth and development of industry in different parts of country. They have also contributed significantly by generating large surpluses, giving the state the ability to be able to finance large developmental programmes in the country. They provide greater economy in functioning due to unified controls, and also enjoy tremendous economies of scale.

Public sector enterprises have also had a very significant impact on the Indian consumer. They have protected and benefited consumers in a very big way. They have also provided a fair deal to workers as compared to the private sector in India. They have also always taken the lead to initiate development in the core sector that we define as those strategic sectors which complement and provide externalities to the economy as a whole and to other industries in the private sector. They have never hesitated to venture into the core sector where on a purely commercial criterion the returns are known to be modest or at times quite insignificant. As an example of core sector activity, I may mention the enormous contribution that Indian PSEs have made in the in the coal sector where they have protected

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livelihood and contributed in the effective reduction of regional inequalities, in wealth and income.

I'm sure that lot of you would know that when India became independent in 1947, we hardly had any public enterprises. In fact, we had only three departmental enterprises, one, dealing with the railways, one dealing with the post and telegraphs, and the third dealing with defense production. The British ensured that defense production would remain a closely guarded secret and would be kept within the state. The railways, as you know, helped in large scale extraction of resources, and so it was important and had to be run with the help of the state, and of course the post and telegraph department which was important for its own functional and strategic reasons. The foundations of the strong public enterprises, particularly the goods producing sectors in the Indian economy was firmly laid by our first Prime Minister Jawahar Lal Nehru who was also inspired and supported by the Josip Broz Tito and Abdel Gamal Nasser. These three renowned statesmen were not only the architects of the Non Aligned Movement but also farsighted leaders who laid strong foundations for the public sector in their countries, the public sector that we are proud of today, and which has benefited the Indian economy in a very sustainable way. When we started building an independent nation in 1951, we had only five public enterprises with a total investment of less than half a billion euros. Today, the number of CPSUs has increased spectacularly to 247 enterprises with a total investment of about 130 billion euros.

There have been wide ranging debates on the profitability of public enterprises. Many skeptics have argued that PSUs lag behind private enterprise in terms of productivity and profitability. However contrary to these critics, the average profitability of Public Enterprises in India has been as high as 20 percent. They are higher, significantly higher than the private sector in India. Of course, the multinationals have a slightly higher rate of profitability and we have a little "catching up" to do. What is perhaps commendable is the fact that in-spite of shouldering social responsibility as well as contributing the much-needed resources to the Indian State, PSUs, on an average remain profitable. With increasing attention being paid to corporate governance and professionalization, I'm sure that public sector enterprises would convincingly demonstrate its ability to attain the highest rate of profitability in the economy. In terms of the numbers of profit making public enterprises, I've just mentioned that we have 247 enterprises. Out of these 247 enterprises, as many as 197 public enterprises are profitable. Only fifty public enterprises out of this large group of 247 enterprises are loss-making. Over the years we have seen that the large number of these loss-making public enterprises have been turned around through the untiring efforts of the Board for Reconstruction of Public Sector Enterprises, which has been specially established for this purpose. It is also important to mention that plans are afoot to document various turnaround cases and to share these with SOEs the world over.

We now turn to highlighting yet another important contribution of Indian PSUs, that is resource generation for the state. PSEs accounts for 20 % of our gross national product. A fairly, large proportion of the gross national product is saved. The total savings rate in PSEs is 35%, and nearly 4% of total national savings is contributed by PSEs.

PSE also significantly contributes through dividends paid to the government and also towards enhancing export earnings and import substitution. In terms of employment, in a country of a population in excess of a billion, the contribution of PSEs has been substantial. It currently employs 1.9 million persons while the Indian private sector employs about 0.9 million persons, so it is a major employer, however considering the fact that we have a growing population, there is a very long way to go in creating productive employment in the public sector. One of our eminent panelists spoke about the strengthening of capital markets. In India, right through the present financial crisis that continues to plague the world, there have been significant steps taken and contributions made by our public sector to strengthen our capital markets. Our capital markets are in their infancy. They have not matured yet, but PSE through their active involvement have strengthened the capital markets, particularly during the crisis years of 2007, 2008 and 2009. Financial institutions largely controlled and belonging to the public sector, and very well regulated in their operations, have maintained the flow of credit at low cost to Indian industry and particularly to private enterprises during this difficult time. The oil companies that are large PSEs have "bled", and have shouldered many losses in order to protect the stability of consumer prices of oil and petrol. Of course, this was at the time when international prices of oil had risen to about 147 dollars per barrel. It was only due to our large PSEs taking the shock of oil price increases that Indian Industry and the Indian Consumers were effectively protected. Many of our people who are not very rich, and whose income has to be protected, as well as many sectors dependent on fuel, would otherwise, have faced many difficulties had the oil giants not intervened and stabilized the situation.

I don't want to go into what is wrong with Indian Public Sector Enterprises, that I suppose all of you would continue to intensively research. But I would like to conclude by putting before you what seems to be the way forward for Indian PSEs.

Being from the IIPA, a national institution that is actively involved in research and training of civil servants and public managers, I think the most important item on the agenda of the Indian PSE is effective corporate governance and professionalization, particularly targeted to those enterprises which are not doing too well. There are many PSEs that are doing exceptionally well, we call them "navratnas" and "miniratnas". Ratnas means jewels in our language they are all our national jewels doing very well for themselves. However there are still a large number who require greater professionalization in order to turn around, and to do better for themselves, as well as for the country. In regard to professionalization, the IIPA along with the strong support and encouragement from the Department of Public Enterprises which have helped us to go forward and formulate a large number of short term and long term managerial programs for our young public sector managers, specially drawn from those industries which are not doing too well. We would be getting the support of our government, and I'm sure, many other related ministries would support us in our efforts. The ICPE and the FEB, Maribor have also decided to partner us in these efforts. The launching of regular management training programs with partners in this part of the world is an integral part of our strategic plan. We intend to ensure that our young PSE managers are exposed to Europe, and particularly to Central and Eastern Europe, and to many other parts of the emerging world, and that we develop this entire initiative into a truly international program to help managers in PSEs to professionalize themselves.

PUBLIC-PRIVATE DIALOGUE AND CORPORATE SOCIAL RESPONSIBILITY

Bhaskar Chatterjee[10]

This will be the second panel of the morning and the subject given to us is public-private dialogue (PPD) and Corporate Social Responsibility (CSR). I have with me on my panel three very distinguished individuals, David Vaillancourt on my right who is the BDE for Gazprom Global Energy Solutions based in Slovenia, which has a specific mandate to pursue global strategy growth through new business development and target acquisitions.

I have on my left Anja Stampar, who is member of the management board of the Kapitalska Družba, which is an asset management company and pension fund management company. And finally have with me prof. Rado Bohinc, who is rector of the University of Primorska.

Before we begin our discussions for today, let me take just a few minutes to try to introduce the concept that has been proposed to us as the theme of this morning's panel discussion. We are looking primarily at two aspects, PPD and CSR. We need to ask ourselves why these two are at all important. When we talk about public sector or SOEs, why do we need to have a dialogue with the private sector, is that important, is that necessary? When we ask about CSR, again quite a buzz word in today management parlance, why should the public sector be doing CSR, because it already forwards public policy in any case? Is it necessary for them to do CSR at all?

And at the heart of these two questions lie some of the important experiences in different countries of the world, which have actually worked the experiment of SOEs. Regrettably, the world still doesn't have too many examples, or really good examples, of public sector and private sector working together. Infrequently we do find that somewhere targets coalesce, but this doesn't happen on a regular basis. But I think the time has come, and as world moves forward, it is not about public sector **or** private sector; it is about public **and** private sector. And when we replace or with and, we try to synergize the strengths of the two. And that is really not so far away. Let me give you one example in India itself.

We have the biggest steel player in the country, Tata Steel, in the private sector, but we have the public sector behemoth the Steel Authority of India, which dwarfs every

[10] Secretary, Department of Public Enterprises, Government of India

other steel enterprise in our country. And for a long time Tata Steel was Tata Steel and SAIL was SAIL, and the twain never met. But, with the world opening up, and with mineral extraction being such an important issue in steel manufacturing, and with the economics of steel production actually varying so much and so quickly, the two have combined their strengths to acquire mineral assets.

These examples are now coming more and more to the fore, because the public sector is opening up to the fact that there are possibilities of dialogue with the private sector and the private sector sees that it can enhance its bottom line when it actually involves the public sector in, what you might say, common objectives.

When we look at CSR, we have another vast field altogether and strangely, those three words mean different things to different organizations. For a long time CSR was something that allowed companies to sleep peacefully, to be able to say "I make my profits as much as I can, but when I feel good, I do something for the underprivileged, so I salve my conscience, so I don't get bad dreams at night".

CSR was also a good photo opportunity; it was a lovely way to show that you have your teeth capped a little while ago! Because your corporate magazine had you on the front page smiling from year to year and distributing goodies to those whom do you not normally meet!

That scenario is rapidly changing. It's no not longer about charity, it is not longer about something you do on the side to feel good about, it is something that is now internalized as part of corporate strategy. It is about the face that the company presents, it's about the image that the company has and it's also about sustainability. It's not about one-off distribution of goods, it's about making sure that you are connected with communities, that actually it inspires your business. It is about connecting with them not on one day, Christmas gift kind of thing; but on a regular basis to involve them in what you do. Does the public sector need CSR? The answer is a resounding yes. In fact, as much as the public sector needs good corporate governance, it also needs good CSR.

So important has that become, that we in the Department of Public Enterprises in the Government of India, have not only issued Guidelines for good corporate governance, which of course, did come first, but we have as of the first of April 2010, issued specific guidelines for CSR. We have said to the public sector that depending on the size of your company you would need to spend between 0.5 and 2% of your profit after tax on the CSR side. It's for you to decide what you want to do with it; the government is not going to prescribe what you need to do. All that you need to do is to ensure that you spend that quantum of money in doing something that's worthwhile to your business and builds your image

So on these two issues, dialogue with the private sector and CSR, our panel will try to present its views to you.

PRIVATE/PUBLIC SECTOR DIALOGUE AND CORPORATE SOCIAL RESPONSIBILITY

David Vaillancourt[11]

My objective is not to argue the merits of public vs. private. What we are talking about starts with CSR. Peter Drucker, a well-known management guru who died in his 90s, spent a lifetime studying the science of business, and it was Drucker who first said that companies have a social dimension to their economic purpose. I will make some observations on CSR and a link between effective performances, without arguing that public rather then private, or private rather then public, is the way we should take. I particularly remember the comments that private ownership does not necessarily solve all problems and that greed and its consequences have devastating effects on the lives of ordinary people. For me this is about reddressing the balance. It is fundamentally about justice. I am going to refer to a couple of things that for me have developed during the course of my career, what I would call enduring verities, things that become truths that you do not want to let go.

In order to set the tone of where are we going, I would like to recount the story of Jack Welsh, who was one of the most effective corporate leaders, one of the best CEOs of corporate America. When he was first appointed, he was interviewed by the Wall Street Journal and he was asked about how he prioritized the various groups of people served by that General Electric – people who might be called stakeholders. He started with shareholders, then customers and then employees. After working as CEO for 20 years and having a remarkable record of success, the Wall Street Journal interviewed him again just before his retirement, reminding him about his original answer before asking him the same question again. His answer was the same, only this time he changed the order of those three groups: first employees, then customers and then shareholders. Twenty years of experience had taught him that employees came first.

This is the Slovenian political macro-economical reference point. Since 1991 independence, the general scene has been evolutionary and recognized that it was in a more competitive environment, which helped its acceptance of FDI and a divestiture program. Strong growth, for about three years up to the middle of 2008, and the arrival of the credit crunch and financial crisis, substantially increased consumption. Integration with the EU has led to a greater complexity in business

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conditions, and a rising of expectations of voters and consumers. On the commercial and managerial front there has been a gradual reduction in the protection mechanisms, starting with food distribution and financial services, a slow move away from direct government ownership to real acceptance of FDI, and more foreign ownership.

But the fear factor, and I do not use this word in derogatory sense, was present. It is slowly disappearing. Any newly independent country with a small population has to have this fear factor of the unknown. With the increasing presence of foreign competitors, companies can no longer expect direct government support or intervention, as they once could. Sources of capital are now becoming much more diverse, and there is a better understanding of what those sources of capital might be. Perhaps in the early days of Slovenian independence, if there was fresh capital required, you went to the bank, ~~signed~~ another loan document and got what you needed. Now there is an understanding you do not have to do that. There are things like venture capital, now called private equity, and mezzanine debt, etc. There is more foreign investment, especially in food distribution and discount retailers (Aldi, Lidl, LeClerc, etc), Commercial real estate is arriving. And some technology companies have been bought by foreigners; for example Hermes Soft Lab, acquired by Com Trade from Belgrade and Iskraemeco acquired by El Sewedy from Cairo. There is also gradual evolution in the legal system – greater sophistication in understanding, development and application of contract law, especially on the issue of binding international legal agreements.

Business has for too long, not necessarily in the Slovenian environment but in general, tended to have a personality and an identity of its own. It has tended to dominate; everything has been subservient to the needs of business. For me, it is another way round. Business is an aspect of service to humanity, not maybe but definitely, and all the time. It is a means of satisfying human needs. What if the obverse holds true? And the obverse has held true on a number of occasions in the past. I would draw to your attention to two quotes, one of which came from the late Swedish Prime Minister Olaf Palmer, who was assassinated 24 years ago, who said that too much competition leads to ever sharper and sharper elbows; you are always pushing somebody out of the way. The other quote I would like to draw to your attention comes from Martin Luther King, also assassinated: "The philosophy of *an eye for an eye* eventually leaves everybody blind."

Companies must participate in the generosity of management and leadership, whether they are state owned or privately owned. They must build trust, and function on the basis of trustworthiness. If not, performance would be less than optimal. And from the management science standpoint you can apply all the KPI (Key Performance Indicators) that you like, but you will not get results that you are looking for unless the people are treated as human beings. Francis Fukuyama said in *The Trust*: *The Social Virtues & The Creation of Prosperity*, the following:

"Before wealth can be created, human beings have to learn to work together, and if there is to be subsequent progress, new forms of organization have to be developed". This implies trust and trustworthiness. If I do not trust the people who employed me or if the people I have employed do not trust me, we will get nowhere. I am not talking about a utopian environment; I am not talking about a metaphysical euphoria; I am talking about the practical application of what works in human life. We could take as an example the model of Hewlett-Packard, *the Model of Four Musts*. Hewlett-Packard has been regarded for long time as being a model example of a good corporate citizen: treating employees well, achieving good results year after year.

There are four musts:

- Company must attain profitable growth.
- Company must make its profit through technological contributions. (Particularly important in the context of a small environment; recent government policy of Slovenia has focused on development of Slovenia as knowledge-based environment with a research focus.)
- Company must recognize and respect the personal worth of employees and allow them to share in the success of the company.
- Company must operate as a responsible citizen in the community.

This leads to risk identification and management: external (macro) risk factors affecting the market position of the company; external (financial) risk factors affecting the balance sheet; and internal (efficiency) risk factors affecting company operations. All of those have to be taken into account. This leads us to a process of measurement and control. You start with strategic planning (vision, mission, strategic statement and strategic plan), operational planning (marketing/production plans), budgeting (revenue, margin, overhead, profit, balance sheet and cash flow), and resource allocation (human and financial) in order to achieve your goals. How do you do that?

- Effective communication of goals and targets: do not impose goals on people that will not optimize their performance. You communicate effectively and hope that they will respond, that they will adopt that goal for themselves. That is a test of leadership and a test of communication.
- Allocation of supervisory and/or managerial responsibility for performance against budget. That does not mean criticizing for the sake of it; that means supporting, guiding, and taking disciplinary reaction when required.
- Empowerment and enabling individuals to achieve their goals and realize their potential, i.e. training and professional development.
- Ethical and moral considerations.

- Structure of organization to maximize individual and collective performance.
- Motivation, support, guidance, discipline and control.

The most effective model is not where manager becomes a friend with employees, but where he or she inspires respect, a person whom people follow, and from which and a personal relationship develops accordingly. Some of techniques that can be used to access performance:

- Balanced Score-Card.
- Twenty Keys (more specifically for project-based businesses).

And all that leads us to the consideration of change and the science of change management. Why do we need change? Why is change important? What are the implications of change and of leaving the comfort zone? We are all in transition; there is no real peace in any sector of humanity. We are hopefully in a process of a healthy evolutionary growth. The process of growing up is not always easy and painless. We have to move beyond the comfort zone. "In any organization undergoing a process of change management, there is one requirement. The CEO must him/herself either be the principal change agent, or nominate and visibly support that agent." (Henry Mintzberg – Cleghorn Professor of Management Studies, McGill University, Montréal). Somebody has got to lead that process, identify why we have to do it and lead that process of change.

I have tried to offer our symposium some thoughts that move away from some of the public sector comments and experiences – the question of whether it is public or private – to considering, how do we achieve better performance and results, and at the same time not lose sight of our basic humanity? We cannot view the people we work with as just numbers or as machines. We all have to function as human beings.

PSE – PRIVATE SECTOR DIALOGUE AND CORPORATE SOCIAL RESPONSIBILITY: THE EXPERIENCE OF KAPITALSKA DRUŽBA, D.D. (KAD)

Anja Strojin Štampar[12]

I would like to talk about the dialog between the private and public sector in the field of corporate governance and I will base my presentation on the experience of Kapitalska Družba. Kapitalska Družba (KAD) is something very specific for the Slovenian society and I think in order to make myself clearer I would first like to introduce what KAD is and what is its core business, what it does.

So, the full name is Kapitalska Družba of the pension insurance. It's actually pension fund management company. It has today something around 116 employees and it is a stock company established in accordance with Companies Act so it is a regular stock company. It was established in December 1996 and it was a part of the privatization process. Today its capital is registered at something about €300,000,000 but the actual value of its assets exceeds €1.3 billion. So this is the register capital and the actual value is much higher. So, how KAD got those assets and how it was created? As I mentioned it was the part the privatization process, the company was established state and the only shareholder of the company is still the Republic of Slovenia and it will remain so because it's defined by a special law. The establishments and the core Business of KAD, the mission of KAD is very closely related to the privatization process in Slovenia and let me just briefly say how it happened. It was a very complicated system process which was regulated and defined by the set of laws but I'm not get into details. The point is that the idea of the privatization was deterring the so called social property with undefined owners into a property with defined owners, with the known owners either from public or private sector. And KAD became one of these defined owners within the process of privatization. So how it was done? The companies, the former enterprises that already exist in the time of social property were transferred, organized and registered in accordance with Company's Act and the company's act is actually a copy of the

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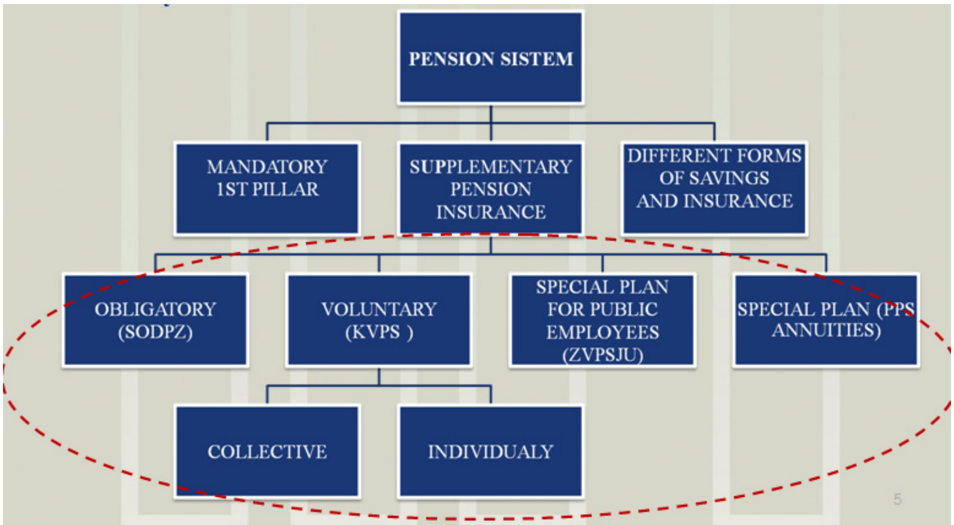
German company act. So we have the same type of companies as you would find in Germany or Austria.

So that was a process that happening in the first half of the nineties, and the KAD acquired 10% shares in each Slovenian company. So 10% of every Slovenian company registered companies in accordance with the law was attributed to KAD as its own assets, either limited liability or stock companies. Within this process KAD actually received more than 1300 shares in various Slovenian companies. I will show you a bit later how our portfolio developed and how it changed throughout the years. This is just graphically to show how this privatization process was done: on one side we had social property and on the other side we have citizens. From special state institutions including KAD the citizens received certificates of various values and on the other side social property was strained into shares and then certificates were exchanged for the shares; this is how companies got their known shareholders.

Citizens became by exchanging certificates for the shares shareholders of the Slovenian companies and KAD became directly, on the basis of the legislation, 10% shareholder of every Slovenian company. Why would this done so? The purpose was to provide additional funding for the pension system. So, all these assets that were transferred to KAD are intended to provide additional funding for the first pillar of the pension system.

There are also some assets that were transferred to the first mutual pension fund which is a part of the second pillar and this fund was intended for the citizens to get annuities after certain age and at the retirements. This is basically just brief idea; for those who don't know how does pension fund in Slovenia work, basically there are two or three pillars. First one is mandatory; it is organized by the state and at the age of the retirement every citizen will get the state pension. This is managed by the state institutions. The second pillar is supplementary pension insurance basically offered by the pension funds and insurance companies. The third pillar is composed of various forms of savings and insurance.

Pension System in Slovenia



Basically KAD has two core businesses; one core business is managing its own assets which is 1.3 billion euros and it is composed of these shares acquired by privatizations. These assets is managed in order to provide additional funding for the first pillar, so every year KAD pay certain amount of money to the national institutions for the first pillar and this amount this year would be 100 millions euros and from next year on, because it is defined by law, it will something about fifty millions. The other core business is managing pension funds: we have 5 pension funds this is private money, not state money, and the value is something about 1.1 billion euros. It is financial institution asset management and pension fund management company.

If I go back to our first core business managing the companies, the shares, the assets that we received by privatization, here we can see how these shares and companies were transferred to KAD. It started in 1996 with 321 and in 1998 we have 1344 shares of companies in our portfolio - every Slovenian company. This portfolio has been transformed throughout the years, today we have only 78 active companies, the rest has been sold throughout those years, but the money has been reinvested and today the asset structure of KAD is composed of something less than 61% of shares, the rest are the other types of assets. As you can imagine, managing 1300 companies is very demanding task, and you cannot do it by 100 people especially because these companies belong to various sectors of economy.

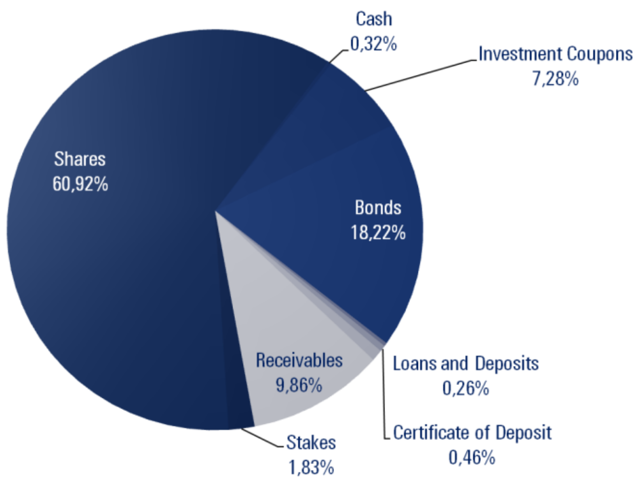
Transformation of the Kapitalska družba's portfolio through the years

Year	1996	1997	1998	1999	2000	2001	2002
The number of companies in the portfolio of Kapitalska družba (by the end of year)	321	1,160	1,344	735	458	385	353
The number of sold companies (in the period of the year)		292	129	132	309	83	52

Year	2003	2004	2005	2006	2007	2008	2009	2010*
The number of companies in the portfolio of Kapitalska družba (by the end of year)	312	265	210	160	113	95	82	78
The number of sold companies (in the period of the year)	46	50	34	54	46	11	4	2

*as of August 31, 2010

Asset Structure of Kapitalska družba as of September 30, 2010



Today this is the structure we are still we have 60% of shares we are still present in the Slovenian and here is the list of major Slovenian companies where we still hold our interest: Krka, Sava, NLB, Petrol, Gorenje (22%) etc…

Major holdings of Kapitalska družba in the major Slovene companies

No.	Company	Industry
1	Krka, d. d.	Pharmacutical Products
2	Sava, d. d.	Diversified
3	NLB, d. d.	Banking
4	Petrol, d. d.	Energy
5	Aerodrom Ljubljana, d. d.	Other auxiliary services in air transportation
6	Telekom Slovenije, d. d.	Telecommunications
7	Gorenje, d. d.	Domestic Appliances
8	Terme Čatež, d. d.	Tourism - Spa
9	Pivovarna Laško, d. d.	Brewery
10	Luka Koper, d. d.	Sea Port
11	INTEREUROPA d.d.	Global Logistics Service
12	Žito, d.d.	Food industry
13	HIT d.d.	Tourism - Casino

This is the playground where we as state owned company interact with other shareholders which come from private or public sector. We have to coexist with them, and participate to corporate governance of the companies mentioned. How do we do? Our corporate governance activities have improved throughout years by getting more experiences, by getting new legislation, by getting new standards and new best practice. Two years ago we adopted our own corporate governance code in which we defined how we are going to behave, how we are going to act as shareholder in the companies in which we are still present. We wanted to achieve transparent implementation of best corporate governance practice and we are still preparing yearly reports on how this is implemented and this is also published on our website so everybody can see what activities if we have been done and if have compliance with our own code.

The management board has adopted general principles for voting on shareholders meeting and those principles are also published on our website, so we want to communicate with other shareholders how we are going to behave, how we are going act, what kind of decisions we will support at the shareholders meetings and what further requirements we are seeding and what we are against. We want to achieve by that transparent and consistent practice in managing our companies

Our goal is to be actively involved and to regularly participate at the shareholders meetings, so we are not absent shareholder, but we are present, we get, we follow information, we require information, we are actively participating in adopting the shareholder decision. And you can get reports on that on our website.

We are also being active in a way by filing the counter proposals to the shareholders resolutions proposals, by which we are trying to prevent adopting of shareholders decision that are against the law, we are trying to stimulate distribution of profit when the conditions are met. So, we want to be an active minority shareholder. Despite the fact that we are fully state owned and that we are very strong financial institution, we are still minority shareholder in the most of this companies and have to behave in this manner.

We also take active part in appointment of the supervisory boards, where we want to follow certain standards and in the last two years we have followed new practice that have been introduced in Slovenia. The Government has established special council for the accreditation of stuff, the special body which praise, evaluate the candidates which are running for the supervisor board in the companies where state directly and indirectly holds interest. So, we follow this rule and every candidate that we propose at the shareholder meetings was first approved by this council.

Another thing that we think is very important and we see our role in this practice. Our Company Act has undergone couple of changes and the articles of associations needs to be adopted. So, at the shareholders meeting we are taking care that the companies' articles associations are actually made complimented with new regulation.

Finally, another important activity in the field of corporate governance is that we have established special KAD has subsidiary for the active management of the stressed companies. In the time of crisis, some of companies in which we have important holdings, had some trouble with liquidity and solvency, so we estimated that these companies need special care and active involvement. For this purpose, we established a new subsidiary, transfer assets of these, something about ten companies, to subsidiary an it is now helping these companies with the restructuring, expert consultations, searching for strategic investors and providing mezzanine financing. We are trying to be responsible and actively involved in the companies that we are present and hold more than minority holding.

I would like to point some benefits of the state direct or indirect holdings in the companies. This definitely offers support to the local economy and helps reinvest the funds that are collected via public duties; so, everything that is collected by taxes is then reinvested in the local environment, local community which helps especially in the time of crisis to better development and to raise the competition. So as you can see we have started with 1300 companies, basically those were shares. Today we have only 60% of our assets in shares. But although we have sold vast majority of our shares, keeping 60% means that we have reinvested in Slovenian companies, in the local environment. Some of the assets we have invested abroad, obviously because of the risk management obviously.

Having the state or state owned entity as a shareholder offers an alternative source of financing which is especially important in the time of crisis when the companies are stressed and not eligible to get financing from the banks. Having the state owned entity as the shareholder would increase possibility to get additional financing, additional source of capital but of course provided in compliance with regulation.

Having state or state owned entity as shareholder, as a partner, it means that this entity will probably pursue other goals then just profit and return and contribute to the social responsibility which would be beneficial for the community.

Finally, although this has not always been practice, the state as shareholder should act as guardian of corporate regulation. State should foster good corporate governance practice; we should strive for that by supporting, by contributing to the development of good corporate government practice. The state should also contribute to the development of financial markets because people would increase their confidence in the markets, they will be open to investment and this is how financial market can grow and develop.

Yet, there are some imperatives that need to be respected when the state is acting as a shareholder in private company with other private entities. The state or the state owned entity have to respect other stakeholders legitimate interest. So, although the state is big player, it has certain powers and advantages, when playing in the field with other private sector subjects, it has to respect their legitimate interests.

Another imperative would be to respect the business goals and the aims of the company. And the last, but not least, despite of the social responsibility and despite of the fact that state would pursue different goals then just return and increase of value, the investments made by state or state owned companies should, nonetheless, be the subject of the economic criteria of efficient asset and corporate management; we should not forget that.

SOME LEGAL ISSUES ON PUBLIC UNDERTAKINGS' CORPORATE GOVERNANCE

Rado Bohinc[13]

Abstract

In this article, I present some issues on corporate governance as an important element of corporate responsibility[14], focusing on some legal issues on public undertakings (public enterprises). Presenting public undertakings' corporate governance issues, I refer to OECD principles on corporate governance[15] and OECD guidelines on state owned enterprises[16]; in addition I present some EU directives referring to public enterprises.

Public Undertakings

Let me first define a public undertaking with a very broad definition. Public undertaking is an undertaking over which the public authorities directly or indirectly exercise **dominant influence** by virtue of their ownership, financial participation, or the rules which govern it.

A dominant influence of public authorities is in particular presumed when they **hold the major part of the undertaking**'s subscribed capital. A dominant influence of public authorities is also presumed when they **control the majority of the votes** attached to shares issued by the undertaking. In addition, dominant influence of

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[13] Rector of the University of Primorska

[14] In several countries corporate social responsibility is also legal obligation of the management board. For ex. in Austria it is responsibility of the Management Board to manage the company noat just in the best interests of the company, considering the interests of the shareholders and the employees, but also in the interests of the public (see: The Austrian Stock Corporation Act, Bilingual Edition ,Deutsch/Enslisch, Translation by, Dr. Alexander Fruehmann, LL.M. (Yale), Attorney-at-Law (New York), StBDr, TiborR.Nagy, Steuerberater, Vienna 2005, Manzsche Verlags- und Universitatsbuchhandlung)

[15] OECD Principles of Corporate Governance (hereinafter The OECD Principles) 1999

[16] OECD Guideline on State Owned Enterprises, 2004 (Guidelines on SOE)

public authorities is presumed when they are in a **position to appoint more than half** of the members of the undertaking's administrative, managerial or supervisory body.

This is very important because the tools through which dominant influence presumed, is what need to be regulated and respected (through the ownership or through the through the rules which govern voting rights and appointment of corporate board members).

State ownership is in various sectors, **most prevalent in utilities and infrastructure**, with energy, transport and telecommunication. A number of countries have very significant state sectors; in some cases they are a **dominant feature of the economy**.

These countries are in many cases reforming the way they organize and manage their state owned enterprises and are looking towards the **OECD experience** to guide their own reforms

State Owned Enterprises in OECD countries

Despite considerable privatization activity in the 1980's and 1990's, the state remains a **large owner of commercial enterprises**. Even if their importance has declined significantly, State Owned Enterprises- SOEs may still represent in some OECD countries up to 20 % of GDP, around 10% of the employment, and as much as 40% of market capitalization. Obviously, according to OECD documents, state ownership is still very important (for ex. in utilities, infrastructure, energy, transport, and telecommunications and so on). That is why, good corporate governance is crucial; and what are the tools of that good corporate governance I'm going to explain using these international documents[17].

The state can play an important role in establishing **good corporate governance practices** in SOEs to the benefit of the corporations and society. For the SOEs, good corporate governance practices open the way to efficiency gains, better performance and the ability to compete with private competitors. Better corporate governance of state-owned assets will promote competition and improve overall public governance through **greater transparency[18].**

[17] Ibidem
[18] Ibidem

EU Directives on Public Undertaking

Let me first refer to EU regulation on public undertakings, from early eighties, to be more precise the EU Commission directive 80/723/EEC (as amended in 1985 (85/413/EEC) and 1993 (93/84/EEC)) , called the Transparency Directive. Commission Directive 80/723/EEC imposed a **general transparency obligation** on financial relations between public authorities and public undertakings; also requires Member States to collect and submit to the Commission **certain financial data** concerning large public undertakings active in the manufacturing sector.

Than we have another directive from 2000, number 52, which obliges public undertakings to keep separated accounts. It is devoted to special type of state owned companies, the type that is entrusted with special inclusive rights, or operates services of general economic interests, or receives state aid.

Namely Commission Directive 2000/52/EC extended the transparency requirements to the obligation of **keeping separate accounts** for public and private companies which, on the one hand, are entrusted with special or exclusive rights or operate services of general economic interest and receive state aid related to these services and, on the other hand, also carry out other economic activities.

And there is a commission directive of 2005 which again applies to undertakings with special of or exclusive rights that operate service of general economic interest and separated accounts are necessary due to the costs issues. Commission Directive 2005/81/EC **modified the definition of undertakings** required to keep separate accounts. The obligation now applies to all undertakings which:

- are entrusted with a special or exclusive right, or
- operate a service of general economic interest and receive public service compensation,
- whether it is state aid or not, while also carrying out other economic activities.

Separate accounts **identify the costs** of the service of general economic interest and make it possible to check that the correct amount of compensation has been paid.

And there is a 2006 directive which replaced the original transparency directive and it has to do with a transparency requirements and special reports requirements for such companies. It is very important that this is a legal basis for public undertakings which are not just state owned but they perform public services. Commission Directive 2006/111/EC of 16 November 2006 consolidated into one text and **replaced the original Transparency Directive** and its amendments when it entered into force on 20 December 2006. This does not however affect Member States' obligation to respect the implementation deadlines set out in the above mentioned Directives

OECD State Owned Enterprises' Guidelines

Let me move on now to OECD guidelines of 2004 which are regulating corporate governance issues for state owned enterprises; these guidelines are in a way complementary to OECD principals from 200, but oriented to specific governing issues to state owned enterprises. OECD guidelines 2004 are dealing with ownership functions, with how boards should be appointed and how transparency should be assured.

OECD SOE Guidelines (2004) should be seen as complementary to the OECD Principles of CG (2004) oriented to specific governance issues related to SOEs. OECD Principles on Corporate Governance are non-binding standards and good practices, guidance for legislative and regulatory initiatives.

The general definition of corporate governance we can find in OECD principles is, that corporate governance is a set of relations between a company, management and its board and shareholders. It provides the structure through which the objectives of the company are exercised and defines means of implementing the objectives.

Corporate governance principles also provide proper incentives for the board and the management to pursue objectives that are of the interests of the company and its shareholders.

OECD SOE Guidelines deal with the way in which the **ownership function** should be organized within the state administration. The Guidelines also deal with how **boards** should be appointed and how boards should be vested with responsibilities. In addition the Guidelines deals with the rules how **transparency** should be ensured.

OECD SOE Guidelines only **add specificity** to the OECD Principles of CG in certain areas, and do not conflict with them.

Corporate governance according to OECD Principles involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined.

Corporate governance further on provides proper incentives for the board and management to pursue objectives that are in the interests of the company and its shareholders and should facilitate effective monitoring.

The State Ensure an Effective Legal and Regulatory Framework for SOEs[19]

The first guideline states, that the state should insure effective legal and regulatory framework for SOEs' operations. The most important standpoint here is that there should be a separation between ownership function and the states regulatory and other roles. It is very important because the mixture of the two states' functions causes chaos and unlawful activities on this filed.

There should be a clear **separation between the ownership function** and the **state's regulatory and other roles** that may influence the conditions for SOE's. SOEs should not be exempt from the application of general laws.

Governments should strive to **simplify the legal form** under which SOEs operate. Other shareholders and stakeholders, including competitors, should have access to efficient redress mechanisms in case their rights are violated.

Any **specific obligations** SOE is required to undertake in terms of public service or special responsibilities should be clearly identified by laws and regulations and disclosed to the general public. Provisions are required to be made to cover related costs in a transparent manner.

The state should act as an informed, accountable and active owner[20]

The second guideline states the importance of the of state as an owner. The stae should act as an informed, accountable and active owner so a clear an consistent ownership policy should be enacted by the government and the government should act transparently in accountable manner with professionalism and of course effectiveness.

On that that OECD guidelines recommends that the exercise of the ownership rights should be centralized in a single entity. In Slovenia this year such an agency was established and now is taking over the ownership role on behalf of the government and on behalf of the parliament. In addition its duty is to establish transparent board members nominations processes and also active participation in the nominations of all state owned enterprises boards.

There are some other important tasks of this agency of course it should represent the state as an active owner, exercise ownership rights. Its has primary responsibility is to participate in general shareholders meetings and to set up reporting system and regular monitoring and assessment performances.

[19] 1th OECD Guideline on State Owned Enterprises
[20] 2nd OECD Guideline on State Owned Enterprises

Guidelines recommends, that the execution of **ownership rights should be centralized in a single entity** (Agency for SOEs) which should establish transparent board nomination processes in fully or majority owned SOEs, and actively participates in the nomination of all SOEs' boards. The state should let SOE boards to carry out their responsibilities and limit its direct participation in these boards (the government should not be involved in the day-to-day management of SOEs and allow them full operational autonomy).

The SOEs' Agency should represent the state as an active owner and exercise its ownership rights within the legal structure of each company.

It has a primary responsibility to **participate in general shareholders meetings** and voting the state shares. The Agency sets up reporting systems allowing regular monitoring and assessment of SOE performance and maintain continuous dialogue with external auditors and specific state control organs.

In addition the Agency **sets remuneration schemes** for SOE board members that take into consideration the long term interest of the company and are competitive enough to attract and retain qualified professionals.

As it is said in the Guidelines, the state should establish a clear and consistent **ownership policy** and ensure that the governance of SOEs is carried out in a transparent and accountable manner.

The government should **develop and issue an ownership policy** (overall objectives of state ownership, the government's role in the corporate governance of SOEs, and how it will implement its ownership policy),

The State Should Ensure Equitable Treatment of the Shareholders[21]

The next, third guideline states, that state and state owned enterprise should recognize the right of all shareholders and ensure their equitable treatment as equal access to corporate information. It refers to OECD principles as far as shareholders position is concerned; the shareholder's rights is defined as the right to convey or transfer shares, to obtain relevant material information of corporation, to participate and vote in general shareholders meetings and of course to elect and remove members of the board and to share the profits of corporation.

OECD principles also recommend the participation of shareholders in the case of so called fundamental corporate changes. Shareholders have the right to participate when decisions are taken with regard to corporate changes, like amendments of the articles of incorporation (statute), the authorization of additional shares and

[21] 3th OECD Guideline on State Owned Enterprises

increasing the capital, mergers and consolidations, the transfer substantial assets and so on. These are basic fundamental decisions of shareholders in which they must participate.

The State and SOEs should recognise the rights of all shareholders and **equal access** to corporate information, referring to the OECD Principles of CG.

The Agency and SOEs should ensure that all **shareholders are treated equally** and have access to effective redress mechanisms. SOEs should observe a high degree of transparency towards all shareholders.

SOEs should develop an active policy of communication and consultation with all shareholders. **Minority shareholders'** access to the decision-making process could be facilitated through specific mechanisms regarding board election or facilitating participation.

According to OECD Principles **basic shareholder rights** should include the right to:

- secure methods of ownership registration;
- convey or transfer shares;
- obtain relevant and material information on the corporation on a timely and regular basis;
- participate and vote in general shareholder meetings;
- elect and remove members of the board; and
- share in the profits of the corporation.
- OECD Principles recommend, that shareholders should have the right to participate in, and to be sufficiently informed on, decisions concerning **fundamental corporate changes** such as:
- amendments to the statutes, or articles of incorporation or similar governing documents of the company;
- the authorisation of additional shares; and
- extraordinary transactions, including the transfer of all or substantially all assets, that in effect result in the sale of the company.

OECD Principles: Shareholders should have the opportunity to participate effectively and vote in **general shareholder meetings** and should be informed of the rules, that govern general shareholder meetings:

- Shareholders should be furnished with sufficient and timely information concerning the date, location and agenda of general meetings, as well as regarding the issues to be decided.
- Shareholders should have the opportunity to ask questions to the board, including questions relating to the annual external audit, to place items on the agenda of general meetings, and to propose resolutions, subject to reasonable limitations.
- Effective shareholder participation in key corporate governance decisions, such as the nomination and election of board members, should be facilitated.
- Shareholders should be able to make their views known on the remuneration policy for board members and key executives.

The State should ensure SOEs fulfill their responsibilities towards stakeholders and report adequately [22]

The next, third guideline says that state and state owned enterprise should recognize the right of all shareholders and ensure their equitable treatment as equal access to corporate information. Again it refers to OECD principles as far as shareholders position is concerned.

OECD principles also recommend how the involvement of shareholders looks like at the general shareholders meeting. Shareholders must not just be informed about all the rules that general shareholders meeting deal with, they have also the right to ask questions, to put items to the agenda, to propose resolutions, to actively participate at this meetings including putting questions regarding remunerations policy of the key executives.

Governments, the Agency and SOEs themselves should recognise and **respect stakeholders' rights** established by law or through mutual agreements, and refer to the OECD Principles on CG.

Listed or large SOEs should **report on stakeholder relations**, as well as SOEs performing an important public policy role or objective(s). The boards of SOEs should be required to develop, communicate and put in place programmes related to internal **codes of ethics**.

SOEs should face competitive conditions regarding access **to finance**. They should establish relationships with state-owned banks, other state-owned financial institutions as well as any other SOEs. Their legal form should allow creditors to press their claims and to initiate insolvency procedures.

[22] 4th OECD Guideline on State Owned Enterprises

Transparency and Disclosure, SOEs should observe high standards of transparency in accordance with the OECD Principles of CG[23]

The forth guideline is referring to the duty of state to ensure to the state owned enterprises to fulfill their responsibilities. It has to do with the issues of reporting on stakeholders relations, with internal code of ethic, with relations with creditors, with instruments that are on disposal for creditors regarding their clams to initiated insolvency procedures and so on.

The recommendations are the following:

- The Agencies should develop consistent and **aggregate reporting** on SOEs and publish annually an aggregate report on SOEs.
- SOEs should develop efficient internal **audit procedures** and function, under the control of and reporting to the board or to the audit committee.
- SOEs, especially large ones, should be subject to an annual independent **external audit** based on international standards. The existence of specific state control procedures does not substitute for an independent external audit.
- SOEs should be subject to the same **high quality accounting** and financial disclosure standards as listed companies.
- Large or listed SOEs should **disclose financial and non financial information** according to international best practices, as well as SOEs performing an important public policy role or objective(s).
- SOEs should **disclose material information** on all matters described in the OECD Principles of CG and in addition focus on areas of significant concern for the state as an owner and the general public.
- A clear **statement of the company objectives** should be provided to the general public, as well as a report on the fulfillment of these objectives.

The ownership and voting structure of SOEs should be **transparent**. Specific attention should be given to adequate disclosure of material risk factors. Reporting should detail any financial assistance, including guarantees, received from the State and commitments made by the State on SOEs' behalf.

The fifth guideline. It has to do with transparency in disclosure. State owned enterprise should observe high standards of transparency in accordance with OECD principals.

[23] 5th OECD Guideline on State Owned Enterprises

SOE boards should have adequate authority to carry out their function[24]

The sixth guideline has to do with the position of the management board and with role of the chair person; it's very clear, that chair person should be a separate function from CEO.

here are some other recommendations regarding setting up the committees and permanent annual evaluations to appraise the performance.

SOE boards should be **assigned a clear mandate** and ultimate responsibility for SOE performance. They should be fully accountable to the owners, act in the best interest of the company and treat all shareholders equitably.

SOE boards should exercise **objective and independent judgment**. They should consist of members with relevant competence and experience and include a sufficient number of non-executive and independent members.

The number of members from the administration should be limited and all board members should be nominated through a **transparent nomination process.**

Where employee representation on the board is mandated, mechanisms should be developed in order to guarantee that this voice is exercised effectively and contributes to the enhancement of **the board skills**, information and i**ndependenc**e.

The Chairpersons of SOE boards should have the relevant competencies to fulfill their crucial role. Good practice calls for the post to be separate from the CEO.SOE boards should carry out their functions of **monitoring of management** and **strategic guidance,** subject to the objectives set by the government and the Agency. They should have the power to **appoint and remove the CEO**.

When necessary, SOE boards could set up **committees** to support the full board in performing its most essential functions (set up with respect to audit, remuneration, nomination and ethics).SOE boards should carry out an **annual evaluation** to appraise their performance.

Conclusion

To conclude it is obvious, that the shareholders in public enterprises should have approximately the same position as shareholders in private companies. No discrimination here is allowed and many states including Slovenia should change their legislation to achieve this goal.

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[24] 6th OECD Guideline on State Owned Enterprises

OECD Principles on corporate governance and OECD Guidelines for SOE present a professional platform for best practice on the field of public undertakings' corporate governance.

CASE STUDIES OF PSE' MANAGEMENT PRACTICES

Peter Kraljič[25]

One of the key messages from the first two panels is that PSE can play or still plays very important role in national economies, depending on the certain extent on the state of development of individual countries. There are many transition countries representatives here at the symposium, and maybe they have different perspective and we will hear their views also. Among developed countries there are many SOEs. I spent long time in Paris, France. France is known for SOE, and one of them was mentioned earlier EDF. This is a lesson for us how did French deal with SOE, because they succeeded to make some of them not only national champions but to turn them into global leaders.

And how did they do that after some initial mistakes which they did after privatization in 1980? It is not so important if the state is owner or not, I think that it is important that state acts as responsible owner. The good example of how to create over time a successful world class company from SOE is Brazil. Now we have number of very competitive global leaders which are coming from Brazil. Petrobras is one of the top companies. I would also like to stress, that we are living in globalize world, if you like it or not we saw its benefits and also risk and challenges. If you think about globalize world, it is more or less free flow of goods, information, finance, people in certain extent. But the problem is on the global level – regulatory institutions. The G20 is now trying to recover something which was created by the financial crisis. We are trying to do something on megalevel, the level of big economic areas. EU is a big economic area. But EU, despite many directives, is not so coherent. We have very different perspectives of individual countries. Germany behaves in different way to France, Italy etc. That is one of the reasons that EU doesn't progress as quick as it could. We have South America and very powerful Brazil and very effective Chile, but there are some other countries that are not yet at that level of competitiveness. So this mega level, how does it influence us? For the companies in each individual state, who are members of EU for example, they are also in need to consider the new rules and directives which are defined in Brussels, not in Ljubljana, or in Prague, or in Paris.

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The next level we could talk about is macro level. The state and the role of the state, as we heard this morning, should really be to set up conditions, macroeconomic and legal conditions, so companies can work successfully. If the state is owner, it should be responsible owner, but not an owner as in some transitional countries where they believe that they should interfere with leadership. Understanding the difference between leadership and ownership is very important. And here in Slovenia, I am sorry to say that, still did not quite understand it. That is why we have a number of SOE which are not doing so well because of constant changes of leadership. But we have some who are, at least partially state-owned, who do very well, and Gorenje is one of them.

Two more levels we could discuss and are related with our topic. Mezzo level – sectors, origins or clusters, what ever you call it, how do they perform, because this is the place where SOEs, private owned companies, and regional administration interact. This is an area where very often you can accelerate economic growth of a region and create new jobs. And then we come to micro level, which are the companies which have to be competitive in these global environments. And that again is important. What is competitiveness? Is it short term performance or long term sustainability or a combination of both? And for those companies who are represented around this table – how did you achieve your competitiveness? Because otherwise, if you are not competitive today, you will not be sustainable. And the very last level that touches us all is a nano level, individual level – the people who are at core of everything. How much do we invest in our human resources, in terms of four critical elements:

- Education, not only the primary, secondary, tertiary, and also later? We need a mentality of lifelong learning.
- Research and development, innovation (for example innovation in agriculture area)
- Productivity (if you are not productive you will not be able to compete in long term, and productivity is all about labour cost, unit cost, and how do we achieve it)
- Values and ethics (we have heard this morning that the greed was the one which was driving financial crisis; there are new values, new expectations; how do we stop erosion of values?)

One of the countries that are very competitive, with 20 years of continuous success, is Singapore. They made a very prosperous, rich and competitive state, even though without resources. One of the biggest drivers is their competitive oriented value system. There is a high correlation between the value system of a country and economic performance of the country. In consequence, that allows covering all other areas like culture, health care, social insurance and so on. That would be my brief introduction statement: the importance of understanding the interrelationship, we can do little on giga level, but we can do more at lower levels. How we interact on different levels of decisions, from government, through corporate governance all the way down to CEO`s.

BEST MANAGEMENT PRACTICES - CASE OF GORENJE

Franjo Bobinac[26]

First of all I would like to thank you for this invitation. It's a great pleasure for me to be among you and share some thoughts with you. Even though I'm not a specialist for the public enterprises, I think it's good to have a kind of dialogue and to understand each other and sometimes listen to each; that brings also good experience to each other. That's why we are sitting here.

I will share some thoughts, information and ideas with you with regard to Gorenje as it is. Little bit about our industry that you would understand what we are, what we do. Of course, here is our vision and, of course, here is our experience throughout our history, especially last year when it was extremely difficult, one of the most difficult year in the history of Gorenje. And then, of course, I will touch a little bit the point of ownership structure and the corporate governments because I think it's a kind of topic that we can combine through your discussion of this morning. I will finish with some challenges that we might have in Gorenje, but I think it's going to be the common challenge also for the future, for the whole global society.

So, I didn't prepare a special presentation about Gorenje, even though it would be a nice thing to share with you what we are and what we do. And I can just tell you that I can not skip, perhaps to the summit stands also a little bit of publicity, because we are producing every day 15000 products; and, at least, I need to sell personally also a couple of them. So if you are about to think about which kind of refrigerator or washing machine or cooker you're going to buy don't forget about Gorenje it's one of the topics. And Gorenje is exactly like Brastemp in Brazil for example or even higher. Could be like General electric in USA or Bosch Siemens in Germany or Electrolux or Whirlpool.

So it's very, let say, industry that to the summit stands it's interesting to share. In Slovenia of course Gorenje is by far the biggest industrial company, also among the top employers of the country, so we are employing here 10 000 people in the group out of which 8000 here in Slovenia. We are also, by far, the most internationalized

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group of companies in Slovenia, since we are producing and selling, let say, 90% outside Slovenia, so we are really export oriented and also our international activities, also the production has been located outside Slovenia as well.

We are having around 80 companies all over the world, mainly in Europe and mainly there are commercial companies for distributing our goods. But in some countries like in Czech Republic and in Sweden and in Finland and in Serbia we are also producing our household appliances production. In Europe we rank in size among the top seven or eight producer of white goods. In eastern and central Europe we are always among top 3 or 4, in the world we are among top 15 and of course in the southeastern Europe or west Balkan we are by far the biggest company. Turnover of the group point: 3 billion euro, 10 000 people and the 90% of export as I mentioned before.

Our industry is for sure one of the typical industry that goes to the end consumer; that means business to consumer, so we are entering to the home. We learned a lot from the automotive industry because the life cycle of the products is completely the same and also supply chain management is also typically the same, one needs to have an important brand to be successful. But our industry is for a long time also in the stage of maturity - supply is much, much bigger then demands that means also a big pressure on prices. And a company dealing with this industry needs to have either cost leadership through entire life cycle and the supply chain or to be different. Of course, being Slovenian company is a good thing; but to the some extend Slovenia is not the cheapest country anymore whit regard to the raw materials and labor and the tax system and so on and so on. That’s why we need to manage costs but on the other side we need to create some key competitive advantages, some comparative elements, that are better then those to the competitors; that means one needs to differentiate and we found inside Gorenje group our differentiation in design and innovation. That’s why we started couple years ago to collaborate, not only with our brilliant designers coming from the best schools of the world, but also from the international designers like Pininfarina, or Ora-Ito, Karim Rashid, even Swarovski Crystals are being put on our refrigerators and so on and so on. So our focus is design and innovations, but also sustainable profitability, which means profitability in a sustainable way.

For example why I’m talking about design innovations? Because the people think sometimes that we are just playing with those beautiful products, having crystallites, Swarovski crystals and so on. But I can tell you that, for example, in turnover those innovative nice products are representing just 10% or less, but in the contribution margin of the company they are representing 25% or more, so they are so much profitable. And since we were not born as Miele or Bosch Siemens, we are not having this heavy, heavy brand name with a lot of importance with regard to the positioning. We are still building the brand name and we are building it through design and innovation.

History is important, to understand the present situation and to understand the challenges for the future. I just wanted to share with you one thought: our predecessors were very smart and had the right vision for internationalization. I'm very proud that for example Ivan Atelšek, our founder that started this very business together with 11 workers in the small village with the name of Gorenje, that is also the name of the company, is still very alive, very active and so on. Till couple of months ago, he was also the member of our supervisory board. It shows also a kind of culture and kind of continuity in our corporate government. But Mr. Atelšek and the team started to export in 1961. And it was not Russia or the Czech Republic, Czechoslovakia at that time, or Poland. It was Germany, the first 200 cookers we exported to Germany and you would not believe that the first subsidiary commercial company abroad it was not established in Russia or in countries it was in Munich, again. So first element of internationalization started on time and it was Western Europe.

The next I would say milestone of our internationalization was then the beginning of 90's when we lost domestic market called Yugoslavia. We liked all very much, but you know, by definition, domestic market is a sweet market and sweet means nice margin, beautiful recognition of the brand names and it is a little bit easier than to compete. But we lost the domestic market on the 90's and instead of having 22 million people we found ourselves with the beautiful market of Slovenia but with 2 million people only. We are having in Slovenia 40% of the market share, like Bosch Siemens in Germany, but Germany is a little bit bigger then Slovenia.

So that was the next element of internationalization and of that time that we lost the domestic market we went, let say a tutta forca, very strongly to export, especially in the Eastern Europe when we started to open all our subsidiary from Moscow to Warsaw to Prague and Budapest, Bucharest and some other markets.

In the last couple of years from 2003, 2004 I can tell you that we are focusing in other element of internationalization and it is acquisition. And it is also not only to sell to different countries but also to produce there, to buy also components and one of the best examples is exactly Serbia, where Gorenje is employing already 10% of the total staff that we are having in the group, so Gorenje is employing in Serbia 1000 people in two different plants. In Belgrade, where we have our showroom and the headquarters of our Serbian operation, we went there not only because the labor is cheaper, and it is, but tax incentive. Being there as a local producer, having through that extra ordinate image of the producer in Serbia and I can tell you that the sales busted, let say in the last couple of years also due to the fact that we are seen as a local producer. And than last, but not least, the special custom duties with Russia and so on and so on. And a lot of components we are buying there in the Serbian market. For us the business is not just the way in one sense it is two senses and we are employing the people, we are giving the people more business and so on and so on.

Today Gorenje is a public company. From 1998 all the shares of Gorenje are tradable at Ljubljana stock exchange. In the ownership structure we used to have around 55% of state through two different funds, indemnity fund and the pension fund. It was 10 years ago. Then 5 to 6 years ago this 35% of the state ownership drop down to 26% and just couple of months ago it is just 22%. The states most probably will still continue to diminish it's participation in the Gorenje ownership structure up to the level of 5-10%, seeing as a logical level of so called portfolio investment. But on the other side we are very proud that within the couple of months of the discussion and invitations, we manage to invite and convinced the World Bank to participate in the Gorenje ownership structure. So today the 12% of the Gorenje shares it's being kept by IFC - International Financial Corporation that is as you know the part of the World Bank.

So today the biggest owner is the state through pension found 22%, but the second biggest owner is IFC, which could be also to the some extend treated as a kind of parastate or pararegional or global owner through the World Bank. But anyhow, we do not care and it's even better to have a kind of mixture because we are having also 20 000 different shareholders. I just mentioned the two biggest, but on the other side we have a lot of employees that are still having a lot of shares, to the some extend also management have the shares, as well as private equities founds, banks, insurance company. A lot of shareholders are coming also from the outside. Today, if I count together with IFC, I would say that around 30% of the owners are coming from abroad and it's a great thing, especially for Ljubljana Stock Exchange where the liquidity is not on a sufficient level or quite high. But on the other side the ownership structure is not the crucial one and I would like to share this idea with you and perhaps also to be a little bit provocative, what do you think about that?

I really do believe that the company can be public, can be private, but the most important thing is competitiveness of the environment where company acts, with regard to the corporate governance, with regard to the R&D, HR management, investments policy, everything. It just needs to be on the same level. And that's why sometimes, in this country we do not think speak about right things sometimes, we are talking to much about demagogy and populisms and so on. The first topic last time when I had a nice interview in a very serious magazine was: "What do you think, Mr. Bobinac, about your salary?" And I said: "Isn't it typically Slovenian question from the serious magazine and your not Yellow Page magazine?" This is the typical first question that I think is not the topic because if the companies are acting in the competitive environment, the remunerations should be, let say, comparable with those companies that are perhaps privately owned but still working at a same environment. And it is exactly the same thing within the Gorenje.

For us it is really a huge and big competition and the offer is much, much bigger than the demand. And even if the state was, for example, 100% owner of Gorenje, it still should have been let say very competitive environment and that's why the management and the people and all the actions inside the company should have been treated in the same manner. That's mine firm opinion about that.

We are still living in very difficult times; it all started two years ago in the financial industry and then of course industry was affected the most. Our problem, let say, in our industry was also that it is business to consumer and it is also durable business; it is not food and beverage. The people are still going every day to buy the food and beverage in Carrefour, Tesco or Mercator, but they just won't buy every day a new car or refrigerator or new kitchen. They are still hesitating a little bit. Why? Because they are concerned about their jobs. Unemployment rate here in Europe is still around 10%. That is very, very high and here I see the major reason for reluctance and also for the not the best performance in our business for still many, many months to come.

But anyhow, last year we managed from the second half of the year to make profitable result and just to compare, for example, in first half of the year our company made 7 million euros operating loss, but this year at the same period 20 million operating profit. So a huge turnaround is achieved through cost management, through free cash flow management, through opening new markets, through investing in new R&D and through keeping the productive places. And here comes also the story about the corporate governance, because we needed to stick very much together, Supervisory board, Management board of Gorenje and so on and so on. Especially in the times of crises one needs to be much unified and to understand, let say, really the stakeholders' perspective. I like this word stakeholders' perspective, even though I do believe it's true that the main objective or the goal of the each company should to create the value for the shareholders. It is also written in our corporate governance rules that we sign together with Ljubljana Stock Exchange and the Management Association of Slovenia and association of the supervisory board members in Slovenia. But it's important on the other side one needs to bare in mind that we have also other stakeholders like people, employees, we have environment, we have business partners, we have a certain responsibility towards the environment that's why one need's to have this all the time in mind.

Let me share with you some corporate government issue with regard to the Gorenje group. We are having so called two tier system of corporate governance. One tier is most commonly used in so-called Anglo-Saxony world, when you have representatives of owners and the managers united in one specific body. But in our case, like in Germany, in Austria but also in Slovenia, we are having management committee or management board and then supervisory boards. Of course, on the top is shareholder meeting or general assembly. And within our supervisory board I'm glad to say you that out of 10 people we are having 4 people coming from really international environment. So it's really, really internationalized. And it is a good thing because Gorenje is much internationalized company. We are making 90% of out turnover and profit outside Slovenia. And it is a very logical thing that also our supervisors are coming from international environment. Also, out of 6 people representing capital, 4 of them are having PhD. It represents something and I think Gorenje is having one of the most competent supervisory boards within the country.

But on the other side it is also very good that on the managerial level that we are having a kind of corporate government where the management board is also acting in its specific country, in its specific company. So, as supervisory board is controlling or giving advice to us with regards to the budgets, basic investments decisions and so on, we are giving advises support and approvals for the budget to our different 50 companies that we are having in different countries all over the world. And it is not an easy task to manage, this entire multicultural environment; but it is also a very nice challenge at the same time, because we learn from each other. Like, for example, in R&D we are having different competent centers right now. Not all the competent centers from R&D are coming from Slovenia. We decided for example that our Holland subsidiary ATAG, that we acquired two years ago, to become competent centers for cooker hobs, because in gas they are having specific technology and they will manage this competent center for the total of the group. And, for example, Asko group that we acquired just couple of months ago is going to be our competent centre for dishwashing technology for the total of the group.

Let me just finish with a couple of challenges that, I do believe, we are facing in our industry. But since our industry is really widely known all over the world I think we can have a lot of things in common. I think it's very important to understand the changes in the world, the movements and the so-called megatrends. Like, for example, when we innovate new products for our factories. One needs to understand the life cycle, the life style of the people. One needs to understand also the demographic changes in the world. One needs to understand also that the world has become very, very connected. I mean hear that, for example, that there is a lot of bachelors, singles, small flats, small apartments. One needs to understand that in our industry but also the life is changing in this way. On the other side, for example, the quality of life having not only 50 or 60, but 70, 80, 90 years is completely different than it was a couple of years ago. We could be sure that, for example, the healthy living is one topic for the society, and here comes also a lot of opportunities for our industry, for a lot of services that we can provide to elderly people but also to the people that would like to have good quality of life, nice lifestyle, also when they are at the age of 70, 80, 90.

Being green. Green society is not only a kind of fashion, but is really a necessity and a lot of challenges are coming out of reach. I just share one information with you: in Europe there are around 15 millions old appliances of white goods. Old, it means, older than 10 years. And I can tell you that refrigerator that is older than 5, 6 years takes just 60, 70% more energy than the refrigerator produced in this moment by Gorenje, or by the competitors of Gorenje. And it means: if Europe were to change all those old park of appliances in one moment, it is nice information that we can close immediately 3 Šoštanj plants. But the new one's means 3 times the power plant of 600 mega watts, and it's a lot of energy. So it's also one of the challenges for all of us for the future especially in environmental business and energy business there's a big idea also how to combine public and private.

Sustainable innovations. Everything that we do is innovation, but we must understand and treated in very sustainable way. That means to combine economical effect, environmental effect, but also social effect.

Social responsibility. I would be very short here. I'm convinced that with regard to the companies that need to provide profit to the shareholders, we can be only responsible in the social way if we are efficient, if we make our business properly, if we are profitable and so one and so one. So I would like to combine this idea of social responsibility and business efficiency. And it's up to management to create this kind of business, to be profitable, to be efficient in the wider way and, of course, then to share with the environment, to help to the environment, to all the stakeholders and so on and so on. So not only that I understand need to support the sport, the culture or health system through big companies not only in environmental way, but also need to be efficient in order to understand all the stakeholders.

Developed and developing countries. Understanding the real meaning of these words, I would prefer that even Slovenia would be treated as developing country. Why? Because the word "developing" means a certain dynamism, action. Developed - we are developed but we don't move, we are developed, we are happy with what we achieve. Look how the world is changing: in Shanghai, or in Brazil, or in Russia, or in India, or elsewhere from the countries like Venezuela and Serbia that we are coming from. So, just be seated in Western Europe, very nice, beautiful old lady, and bearing in mind that we are coming from developed world it is a very, very dangerous thinking. Everybody's from developing world knows what is happening in States, what is the name of the president of France or Germany or the USA, even we know the mistress names of USA ex president, one of the ex president and so on and so on. But I'm convinced that not a lot of people know who knows the president of China or India not even to mentioned Sri Lanka.

And I will finish now with just one story I like, about Gretzky, Wayne Gretzky, you know, the famous hockey player treated as the best hockey player in the world. When asked "Mr. Gretzky why are you the best hockey player in the world?" and he was always saying: "I don't know, but everybody is skating towards the point where the puck is in this very moment but I'm trying to skate a little bit in advance, towards the point where this puck is going to be within the next seconds."

PUBLIC SECTOR ENTERPRISES IN SRI LANKA AND CORPORATE GOVERNANCE

Athula Kumara[27]

I would like to say a couple of words about Sri Lanka public enterprises, how they operate, etc. First, in Sri Lanka enterprises were introduced in 1960. In eighties the privatization came to scene and what happened to our public enterprises in Sri Lanka - many of them were damaged because they can not compete against private sector forces. In recent years globalization mainly affects PSE; public enterprises in Sri Lanka collapsed and now we are facing with challenge how to revive them.

Many of PSE in Sri Lanka operate with loss. I think the main reason for the losses is that the companies and corporations do not try to take the advantage of new technology. They are stacked with the old systems and technologies. Therefore I think in Sri Lanka there are many challenges how to improve public enterprises.

On the other hand, I would like to briefly mention structure of public enterprises in Sri Lanka across sectors. The sectors were PSE are important are communications – government owned company Sri Lanka Telecom is market leader in Sri Lanka with about 50% of the market share, then oil production (80% government owned enterprise Petroleum is running), then transportation (Central Transport Board in railways sector), civil aviation, post authorities, water irrigation (100% provided by government organizations), health and education (also 100%). Therefore, there are many PSE and they can affect people's lives.

Public Enterprises in Sri Lanka, numbering over 200, cover a wide range of entities as follows: statutory boards, commercial corporations, government owned companies, subsidiary companies of public corporations and government owned companies. Public Enterprises are owned by the public and are accountable to the people. Accountability is discharged only through good governance practices. I'm very sorry to say that there are guidelines made by DPE but many public enterprises do not conceal them. Good governance practices enhance performance through risk management practices, transparency and accountability. Public Enterprises are

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Corporate Bodies and the system of corporate governance is therefore directly applicable to them.

Public Enterprises have a long history and the Government policy has been changing from time to time. The current policy of the Government is not to privatize or liquidate but to improve performance through good governance. New definition for public enterprises – "enterprises owned and controlled by the Government which generates most of their income from sales in the market rather than depending on the government budget". The new definition demands effective management free from budgetary support and to contribute to the national economy. Government policy is not to further subsidy to public enterprises.

The following table shows number of PSE by category:

Category	No. of Enterprises
Commercial Enterprises	55
Govt Owned Companies	39
Statutory Boards	145
Minority Share Holdings (subsidiaries)	43
Total	282

Another table shows summary of the public enterprises in Sri Lanka in terms of investments and dividends:

Description	Year	100% Owned	50<Gov<100	50>Gov	Plantation
Total Investment (Rs.Mn)	2008	13,830	4,738	12,638	407
Dividends received (Rs Mn)	2008	44	-	1,044	17
	2007	163	-	1,579	10
Dividends received As a % of Total Investment	2008	0.33	0	8	4.19
	2007	0.43	2	12	2.5

Dividend as percentage of total investment for 100% owned companies is very low, which is very bad situation. Also, during last eight years, 50 companies out of 92 have not paid dividends. Return on investment to the Government is very low, even below the Treasury bill rate (about 8% now).

In 2007, the Treasury has received only Rs. 3,439 Mn. in the form of Levy. In 2008, the Treasury has pumped funds in to SOEs as:

- Recurrent Expenses -Rs. 6577 Mn
- Capital Expenses - Rs.6829 Mn

Therefore, the net expenses for government in 2008 were over Rs. 13000 Mn.

Let me say a couple of words about corporate governance in Sri Lanka public enterprises. Governance is the structure and process for decision making, accountability, control and behavior at the top of the organization and corporate governance is a system by which corporations are managed and controlled. Principles of corporate governance are:

Trancparency: full, accurate, and clear information leading to effective and timely decision making and stands up to any forms of security.

Integrity: strait forward dealing and completeness based on honesty and objectivity.

Accountability:

- obligation to answer for responsibility conferred
- public enterprises are owned by the public and are accountable to the people
- accountability is discharged only through good governance practices
- governing arrangements is the responsibility of the governing body of public enterprises
- the Governments' role is to ensure that an appropriate governance structure is in place by appointing the governing body and the auditors.

Corporate governance represents the top management and operation of the companies. Therefore, DPE of Sri Lanka established guideline which includes all of appointments and responsibilities that management should take into account when run the organization. On the other hand our guideline reflects the attitude that the companies should prepare corporate plan and when they preparing corporate plan it should take into consideration both global environment and internal environment; considering these factors, plan should be implemented by the management and quarterly reviews should be made to assure that targets are achieved. And DPE in Sri Lanka improved guideline according to the requirements of the new challenges.

PUBLIC ENTERPRISES IN SERBIA

Dejan Erić[28]

I am extremely happy, because this afternoon I am much richer now than earlier this morning, thanks to panelists and discussion in this Symposium. I tried to divide my presentation in three parts:

- Short overview about public enterprises in Serbia
- Contribution of PSE in creating good national brand
- Case study of financial institution

Serbia is much smaller country than India for example, but it has large number of enterprises. At the end of June that number was 765, 29% in area of energy, gas, water and supply, 25% in municipal services, utilities, 15% in real estate, more than 90% is completely state owned. Share in Serbian economy is less than 40%, but share in the total employment is not high 7-9%. There is lot of challenges regarding public enterprises in Serbia. First of all, we still have extremely high political influence, especially after elections politicians create mindfields. Their philosophy is as follows: don`t touch this, we won the elections and now it is time to share the benefits of that win. Main question that politicians ask themselves is: what is my part in that process, what can I take from that win? It is causing a lot of problems. We have very weak corporate governance. Also in some cases there is no disclosure, sometimes no transparency, lack of appropriate information. Effectiveness and efficiency is under question mark. We have very poor quality of management, and especially – you can find a manager but it is very difficult to find a leader in Serbian PE. And, unfortunately there is no leadership in Serbian public sector enterprises.

Also, financial results are questionable; overall sector causes negative financial result. We have lot of loses which are socialized, it means that every tax payer contributes to cover loses of PSE. Three bigger companies that caused the lost are EPS - electricity company, railroad company and JAT Airlines. Electricity and railroad loses can be explained, because prices are regulated by the state (social component).

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PSE are often source of corruption, especially in public procurement. Our government put lot of effort in order to improve the law and in order to put much more light in public procurement. From professors and consultancy point of view, we are extremely unhappy because we can not see real restructuring of Serbian PSE. If they are talking about restructuring it means „I will lay off 20-30% of the total staff". It is very simple understanding of how to restructure the company. There is no organization transformation, in some companies yes, but it is always very difficult to make general opinion. From time to time you can find some elements of life long learning, skills development and educational programs. I was extremely happy when I hear that our guests from India who told me that they will send their young people to Europe to learn best practices. I would be more than happy if we could send our people to India, to learn how to run the company, or to Venezuela for example. Also, very limited use of PPP, and usually when you are talking about PPP in Serbia it is much more private than public. It means private – win, public – loose. We are trying to change that picture and to show that we could do something differently.

Last year we conducted one research, small by the scope, but very important by its role. The question was: what is your first association when you hear word Serbia? In the Europe the most frequent answers were Belgrade, war and Yugoslavia. Same words came up in survey conducted in ex Yugoslav countries with addition of word food. First association in Serbia is corruption. It could be seen as bad and good sign. Bad because we have problem, but in the same time it means that we identified them. Sometimes the first step in solution is to identify problem. Among other questions one came with very interesting answers. The question was: Tell us the name of 3 most important enterprises from Serbia. People from Europe didn't know any Serbian company. In ex Yugoslavia car producer "Zastava" is well recognized, with famous and well known car model Yugo. There is a joke in American movies "Yugo (it is pronounced as: you go), I don't". Unfortunately, we stopped that production three years ago. Now "Zastava" is sold to Fiat, and we are expecting a lot. It is one of the cases how we can change the whole image of the country.

Our conclusion was that Serbia has no strong corporate brands, no public or private. It is our huge problem. When you take a look at Slovenia, you have "Gorenje" and "Elan", in Finland there is "Nokia", in Germany "Mercedes" and "BMW". There is no such brand in Serbia. It means that we have to pay a lot of attention in order to change a picture.

I don't want to be pessimistic, because when we are coming from Serbia we are full of optimism. We believe that we can change that picture. There is one case where some changes happened. It is case of "Komercijalna Bank", founded in 1970. It was completely state owned until 2006. It had rapid growth during the `90. In 2006 state decided to sell 25% stake to EBRD. After that lot of good things happened to the bank: changes and improvements in corporate governance, adopting of ISO standards, new systems established (in trading, reporting, communication), etc. The results are: it is bank No. 2 in Serbia, every month there is increase in number of clients, there are lot of good signs in profitability - ROA and ROE arise, and now we have one very strong financial institution. Also there are lots of such companies. We are still expecting to see results from them.

I would like to thank to the ICPE for giving me opportunity to say something about my country. In behalf of Institute of economic sciences I wish you a lot of success in next 35 years.

MANAGEMENT PRACTICE IN PDVSA

Nestor Lopez[29]

I would like to thank ICPE for kindly inviting us to join this definitely necessary round of talks about an important issue such as the public enterprises, state enterprises in the current times and corporate responsibility. Right when I was sitting on the left here happily. We are not afraid to say we happily seat on the left. I'm not afraid to say that seating on the left have the meaning that we don't believe in the possibilities for business. Venezuela is, as you for sure know, undertaking the path towards socialism despite the opinions from everywhere. After what happened in the world economy in the last years I think we have done very well. In the days when some banks were being bailed out in London, I remember I was in London for the G20 summit, in those days I was hanging around the city. You know those blocks in London where the whole economy of the country is concentrated. The whole economy that used to be a metropolis was concentrated and I was very impressed to see big companies, the Royal Bank of Scotland amongst others, going cap in hand to the government for bailouts amounting to, at least in those days they were saying, 800 billion pounds. By those days Venezuela was buying a bank, the Santander Bank in Venezuela which has no problems - simply the Santander Bank in Spain decided that it wanted to sell the bank in Venezuela because they needed extra funds. And we bought it. It was a great bank; it was the second bank in the country. We were socializing the profits. In other countries they were socializing the loss. And we are happy to say that in that very moment we were on the right place at the right spot.

Talking about best managing practices it is very difficult for us when we are talking about our industries; main industry in Venezuela is oil. Oil accounts for 50% of the national budget. If I start speaking about the best practices of the oil industries in Venezuela, well it would take maybe one week. It's the oil industry, one of the dirtiest business in the world, one of the most delicate business in the world, one of the businesses involving more social responsibilities in the world as BP which by the way is kind of private company. So best management practices in this connection involves, yes, the top quality practices in order to ensure that the

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resources under the earth doesn't effect the environment, don't kill anyone. You know either you produce enough profits for us to keep our national budget, including all the social programs Venezuela is developing now with great success, I must say. Venezuela has been ranked lately, by the most important international organisations, as the country in the region that has the most impressive social development. For instance, the equality index, the GINI Index, which measures equality in society, says that Venezuela has the best ranking in the region. The human development index also shows that Venezuela has achieved its ranking now amongst the very first countries that have tried to leverage people out of poverty. As a matter of fact, as per my last accounts, in the latest news I've got, the every report issued by the UN development program says that Venezuela's poverty dropped 44% from 1998 to 2008.

In the country that was very wealthy in terms of recourses it has, but was really affected by immense poverty, affecting almost 80% of the people. Something that was unexplainable. And the oil industry before 1998 also had the best practices, the best management practices, by the way we always had the best management practices. Venezuela was always ranked among first. It even was once first in Fortune 500. And in the Intelligence Petroleum Review index it ranked always one, two, three, and four. We were ranked fourth last year. But that doesn't mean that it had a responsibility to the people, so what I can contribute with regard to that industries, what are the new best practices, management practices that have made a difference for the people who are eventually the real shareholders of that company, that is 100% owned by the Venezuela state.

It has to do with how connectivity with society has evolved between the oil industry of Venezuela and the people. We could say now that when we speak about Venezuela we are speaking about PDVSA, and when we are speaking about PDVSA, we are speaking about Venezuela and when we speak about Venezuela we are not speaking only of these map, of this country located over there in the northern South America, zero degrees, 12 minutes away from the Equatorial line; that tropical country, that Atlantic country, that Caribbean country, that Amazonian country. No, we are talking about the people. Just like Bill Clinton said in his first presidential campaign, putting people first, that was his motto. That is our motto now, that is PDVSA's motto now, and this has not affected profits for PDVSA for further investments in the oil industries. PDVSA has contributed practically for over half of the 340 billion dollars that have been spend in the last 10 years in social programs in Venezuela to leverage people out of poverty. PDVSA doesn't take loans from the Venezuelan state. PDVSA contributes, not only to the national budget, but to special development fonts to fight poverty.

What are these best practices? This best practice means selecting better the management, selecting better the people that are to take full responsibility for the corporate actions. We use to have wonderful technocrats, many of them were

Harvard graduates, many of them were Yale graduates, it doesn't say much. They simply were disconnected from the reality of the country. Ten years ago, I remember, some PDVSA manager saying "We are a first world company in third world countries", and he felt proud to say that. It was a state owned company and they tried to keep it running that way. Until the people said: "No more!" And people took over control. The workers of the oil industry, those who were not to be able to manage the company, they manage the company now. Some technocrats, that besides being good technocrats were also good Venezuelans, understood paradox of living in one of the wealthiest countries in the world, having such a large poverty.

Venezuela, my dear friends, in the next days will be certified as the largest oil reserve in the world. I'm talking about 360 billion barrels of oil that are located only in the Orinoco oil delta, which is a very industrial region because it is safe and that keeps us away from exploiting the Amazons which is a good news. For Venezuela keeping the oil business in the state hands has become really a mission. Why? Because, as I said before, oil is a dirty business. It has incredible environmental impact, it can kill people, it pollutes the whole planet; as a mater of fact, with gas emissions, the fuel fossils are bad. And Venezuelans live on oil and we say that the fossil fuels are bad. But that's what we got. Venezuela invests a lot and PDVSA, invests a lot in the alternative energy business as well. In Venezuela 73% of the electricity comes from water, not from oil. People wouldn't believe that but we do that, because we are aware, the state is aware, that this is a business that must be kept under control. Productivity is important, but be careful, we should not produce to much oil! Oil must not be too cheap, because that would kill the planet. We could exploit all the oil we got in the Amazons, if we don't do it; it is the lungs of the planet. But this argument can only be grasped and worked by an entity that is not necessarily private. Ask BP again, I know what happened in BP, I don't need to be told a story I have been in the oil industry to many years to know what happened there. It was greed that has almost killed all that economy in the Golf of Mexico. It was greed. They found oil and experimental well became the production well. They keep it producing and they didn't open other wells. That is irresponsible, absolutely irresponsible. This time for sure states care better, because states are reflection of the people. In Venezuela now we are not rustling too much with this new dichotomy between state and market. Both are the reality of society they both must be under the command of the society, society is the people. So the best managerial practices, that Venezuela might recommend to both private corporations and state owned corporations, is just to keep that mind where it must be to serve the people, to serve the basic shareholders. As a matter of facts corporations come from bodies and corps, you know? Corporations are fictions, that somehow or they try to emulate, try to imitate human beings, but we must keep firm grip on the idea that there must be sound controls. Accountability, as my college has just mentioned, yes accountability, transparency to all the people. That must rule all the activities of the corporations and particularly state owned corporations; it is a moral thing, business ethics as moderator just also said.

I remember 20-25 years ago reading a lot about business ethics. What happened? It stopped being a subject to study at Harvard or at Yale. What happened there, what happened with ethics? And particularly what happened with the human kind? This morning it was discussed the role of the PSE in the developing countries. We Venezuelans speak not only of the role of the PSE in the developing countries but of the countries. I mean the social responsibility of the company goes beyond the borderlines of the country where this company operates. We got, for instance, CITGO in the USA; maybe many people don't understand our relationship with the USA. But in USA Venezuela has 6000 gas stations and 3 of the most important oil refineries that they have. That we got there, we act there, their consumers are our clients and some people die in winter because of the cold. So we got SITGO helping approximately 6 million people in the USA every winter by giving for free heating oil so they won't die, so they can use this money to pay, you know bill's, medical bill's and so on so forth. In those northern states, in those poor communities, in those Indian reservations, in those shelters even in Washington DC, shelters attending people that are poor, homeless.

So we must care. This is a good business, this is the best business. You can ask PDVSA who has a great profit rate that has made great investments in terms of the infrastructure that is required to process our oil, to refine our oil, not only in Venezuela, but in many other places around the world. And we can keep our social programs thanks to this money. In the past this was not done; for some reason PDVSA was about to be privatize in the 90's. About to be privatize you know why? Because it was not profitable. An oil monopoly in the country that was rich in oil was not profitable. The truth was that we had a management board all of them very qualified, with great grades from the universities, that were simply breaking the company from the inside so that it could get privatize. Eventually we learn that many of them were in the payrolls of the Seven sisters, a name we use for the seven biggest multinational oil companies. The former PDVSA manager, the big guy, the guy who was called the prince, the day after he was forced to step down, became the chief advisor, a chief energy advisor of President Bush. I mean this is something - the idea is in this best management practices, the first thing is the selection and recruitment. Who are you recruiting to work in this state owned company, is someone who really cares about the people, is someone who really cares about the country. And not only the country, someone who really cares about human kind, about otherness. We see many greedy people around in the world now, you know. I think this is all I have to say but I would take any question when ever it comes.

FINANCIAL PERFORMANCE OF PUBLIC SECTOR ENTERPRISES IN INDIA: AN EMPIRICAL STUDY

Gupta Seema [30], P.K.Jain [31] and Surendra S. Yadav [32]

Abstract

The objective of this paper is to assess the financial performance of central public sector enterprises (PSEs) based on 18 ratios pertaining to the profitability, efficiency, leverage, liquidity and productivity per manpower over a period of 16 years (1991-92 to 2006-07). The result shows that liberalization and economic reforms have played a significant role in enhancing the financial performance of PSEs over a period of time in majority of parameters.

Introduction

Public sector enterprises (PSEs) in India, initially have been expected to act primarily as an instrument to achieve self-reliant economic growth and to overcome the socio-economic problems. The rationale for setting up public enterprises, *inter-alia*, was to ensure easier availability of vital articles for mass consumption, to introduce check on prices of important products, help to promote emerging areas like tourism etc. (Public Sector Enterprises Survey, 2002-03). These socio-economic responsibilities have been identified as one of the major reasons for non-profitable operations of a larger number of such enterprises; this in turn, has caused heavy burden of borrowings on a large number of enterprises (leading to incidence of higher interest) and mounting losses, eventually causing precarious situation. The government realized it and conceived measures for their reforms. This constitutes genesis of the 'Statement of Industrial Policy' (announced on July 24, 1991) which *inter-alia* includes statement on public sector policy. The policy has required to review their portfolios, to revive/rehabitate/turn down sick enterprises, raise resources and encourage wider public participation in government equity and signing of memorandum of understandings (MOUs).

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Therefore, subsequent to Economic Reforms 1991, the Government has desired that these PSEs should be financially profitable (operate as a profitable organization) and economically efficient (in existing resource utilization) so that they can also discharge their social obligations better; they should not depend on government for budgetary support (to meet their mounting losses and expansion needs) in view of its own rising fiscal deficits. In view of importance of the subject to Indian economy, the paper aims at assessing the financial performance of virtually all the non-financial central PSEs in India for a period of more than one and half decade.

For better exposition, the paper has been divided into four sections. A brief summary of literature review has been presented in section one. Section two discusses the methodology, data source and scope of the study. The financial performance of the central public sector enterprises (in terms of select financial ratios) has been carried out in section three. Section four presents the summary of results and major findings.

Literature Review

This section primarily deals with select studies (a) related to financial performance of PSEs and (b) other important aspects such as their contribution to the development of economy, problems faced by them and suggestive measures and recommendations to be considered to improve their performance.

Studies Related to Measurement of Financial Performance:

Jones and Mason (1982) assume that governments are pragmatic and rational. They claim that the size of the public sector increases until the marginal benefit from doing so just becomes equal to the marginal cost.

Reddy (1988) focuses on the need of reforms due to the fiscal crisis. Due to this, government finds necessary to lend some urgency to reform public enterprise with an implicit admission of relatively limited liability of government to inject finances unlike in the past. He emphasizes the need to examine/quantify the loss is attributable to subserve social obligations.

Most of the profit and loss leaders (implying enterprises) operate in an atmosphere of price-regulation and a large part of the markets in which they operate (input or output) are in the exclusive domain of public sector enterprises themselves. This makes any analysis of profitability very unrealistic. Further, it is not clear which of the loss leaders have had ‘locational’ problems and how much its effect on the costs are taken into account in price-fixation by government. Moreover, non-availability of inputs like power, fuel etc. indicates mismatch between supply and demand within the PSEs. More importantly, pricing restrictions or general price policies appear as much relevant to profit leaders as to loss leaders. Price increases in most loss leaders would have led to higher input prices to other public enterprises.

Jain (1988) has given emphasis on operational and allocational efficiency criteria to judge the financial performance of Industrial Finance Corporation of India (IFCI), a leading development bank at that time.

Boardman and Vining (1989) compared the financial performance of private corporation (PCs), state owned enterprises (SOEs) and mixed enterprises (MEs) among the largest non-US industrial firms (500 in number); among them 419 were PCs, 58 SOEs and 23 MEs. For analysis, they used four profitability measures; (1) Return on equity (ROE), (2) Return on assets (ROA), (3) Return on sales (ROS) and (4) Net income (NI). In addition, they used two measures to examine aspects related to efficiency, *viz,* (5) Sales per employee and (6) sales per asset.

The model contained dummy variables for SOEs and MEs, thereby making PCs the benchmark. In order to reflect the competitive position of each firm, they included assets, sales, employees and a measure of (international) market share. Assets, sales and employees measure size; they reflect economies of scale and, to some extent, market power. In order to control for the competitive/ regulatory environment of the industry, they included concentration and dummy variables for each industrial sector and each country. Concentration is measured by a four-firm concentration ratio. The concentration ratio is the percentage of an industry's employees accounted for by the four largest firms in an industry. The results showed that on an average, the ROE of PCs is 14.5 per cent higher than that of SOEs, and 18.4 per cent higher than MEs. PCs generally have higher performance than the rest in terms of profitability and efficiency.

Sheikh (1990) describes that the PSEs have not lived to their expectations due to variety of factors. In particular, there has been growing concern over their poor financial performance and the consequent financial burden upon developing countries (like India) which is viewed as unsustainable in the long-run.

Kumar (1992) measures the performance of privatized/disinvested companies and classifies companies into two categories. First, where enterprise performance before and after divestiture is compared and second, where enterprise performance after divestiture is compared to some benchmark.

In the case study approach, performance of the enterprise before divestiture is compared with its performance after divestiture, attributing any observed changes to the divestiture. This approach, however, is applicable only in a static environment. In reality, changes in enterprise performance could be driven by changes in the economic environment rather than by divestiture. Thus, in individual case studies, it is difficult to segregate the effect of divestiture from other factors such as growth of economy, policies of liberalization and deregulation. Another drawback with the case study approach is selection bias. One tends to study only 'interesting' cases leading to subjective judgment. However, if we take large number of firms simultaneously, then the effect of compounding factors might be expected to 'average out'.

Murli (1993) suggested a modified regression technique (known as polar-regression) to discriminate between financial ratios to isolate a set of more significant ratios appropriate for performance analysis, *vis-à-vis*, other financial ratios.

Megginson et.al., (1994) have used the set of financial ratios (related to profitability, operating efficiency, employment, leverage, payout and output) to measure the financial impact resulting from privatization. They find statistically significant increase in the parameters of profitability, real sales, operating efficiency and capital investment spending of the sample firms after divestiture.

Boubakri and Cosset (1998), have examined the change in the financial and operating performance of 79 companies from 21 developing countries that have experienced full or partial privatization during the period from 1980 to 1992. They used accounting performance measures adjusted for market effects as well as unadjusted accounting performance measures. Both unadjusted and market-adjusted results show significant increases in profitability, operating efficiency, capital investment spending, output, employment level and dividends. They also find decline in leverage following privatization but this change is significant only for unadjusted leverage ratios. To measure the financial performance, following ratios have been used substantially:

- For profitability: return on sales (ROS), return on assets (ROA) and return on equity (ROE) have been used.
- For efficiency: sales efficiency and net-income efficiency have been calculated.
- For capital investment spending: capital expenditure/sales has been used.
- For output: real sales has been calculated by adjusting nominal sales by consumer price index.
- For employment: number of employees has been considered.
- For leverage: total debt to total assets and long-term debt to equity have been measured.
- For dividends: dividend to sales and dividend payout have been calculated.

Jain and Yadav (2005) have assessed the financial performance of the service and manufacturing PSEs in India; service enterprises have shown better profitability than manufacturing enterprises during the aggregate period (1991-2003).

Sangeetha (2005) uses regression technique with dummy variable approach to measure the performance of PSEs. The study captures this with a dummy variable '*Autonomy*' that takes the value of 1 in period 't' if the enterprise had signed a MoU in period 't-1'. It is hypothesized that signing of MoU by a PSE will have positive impact on its profitability performance.

Gupta (2005) has cautioned that the before-after estimators are not reliable if there are significant changes in the overall state of the economy between these years or if there are changes in the life-cycle position of some of these privatized firms. The author has used fixed effects regression with dummies to describe the results. Using fixed effects and instrumental variable regression, they find that partial privatization, in which minority shares of state-owned firms become available on stock markets, has a positive and highly statistically significant impact on the operating performance of firms. Partial privatization leads to an increase in the productivity of labor and output without layoffs. Hence, results support the managerial view that improved managerial efficiency is a significant factor in explaining the effect of privatization on performance

Amiti and Konings (2007) are of the opinion that liberalization affects productivity. They find positive productivity effects in Indonesia with reduction in tariffs.

Other Studies Related to the Role and Importance of Public Sector Enterprises

Kumar (1994) describes role of PSEs in the development of Indian economy. They are the instruments of public policy and enhance social welfare. They suggest that policy makers must devise a policy to improve the performance of public enterprises in order to serve public purpose as well.

Gouri (1997) describes a complex hierarchical structure of government which constitutes the public sector in India. Public sector refers to all government activities including administration, running utilities, financial system of the government and commercial activities of the government.

Ghuman (1998 and 2001) acknowledges the contribution of public enterprises to India's economic and social development. They are themselves increasingly more conscious of the need to promote and achieve management excellence, as testified by the introduction of the Standing Conference of Public Enterprises (SCOPE) awards for excellence in public management. While recognizing the impressive achievements of public enterprises, it is essential not to deny such persistent and major shortcomings as over-capitalization, overstaffing, under-utilization of installed capacity, delays in the implementation of projects and inadequate attention to R&D. These matters as well as the effects of various privatization initiatives taken to-date clearly deserve to be studied and addressed by concerted government action.

Yet, at the same time, author opined that they must not be allowed to over-shadow the very positive aspects of India's public enterprise experience.

Sengupta (2002) has recommended for the technology up-gradation, organizational restructuring, dependence on public borrowings and some degree of linkage of wages and productivity of PSEs. He said they should operate in the core sector and the loss-incurring, non-core enterprises should be studied in detail so that they could be made economically viable.

Naib (2004) says poor monitoring is a common criticism of public ownership and finds principal-agent problem in public enterprises is much more severe than private enterprises. Because, the full monitoring hierarchy includes voters, elected political representatives, civil servants and the managers of state owned enterprises (SOEs); this leads to a number of principal-agent problems. The politicians and/or bureaucrats responsible for monitoring SOEs can themselves be viewed as agents of the wider public (the principals) and it is the welfare of public that is ultimate benchmark against which performance should be judged. The incentives for politicians to act in the best interests of the wider public will depend upon factors such as the nature of the relevant political system and the closeness of impending elections.

There are considerable informational asymmetries between politicians and voters. Informational asymmetries indicate that an efficiency improvement may sometimes lead to worsening of the electoral prospects. On the other hand, there would be electoral benefits in setting politically sensitive low prices even below marginal costs; since, the direct positive impact on consumers is more visible than the indirect negative effects arising out of giving subsidy to SOEs.

Bala (2006) endeavors to look into the evolution of the role of the state and its intervention in the economic development within the contours of socio-economic and political circumstances. In many developing countries, state enterprises are assigned the responsibility of fulfilling specific social goals. The state intervenes through state owned enterprises in the countries where investment needs for different projects are large and the expected returns (at least in the short-run) are too low to motivate private capital to invest. Excessive political interference and lack of managerial interests (autonomy) hamper the performance of state enterprises. It has resulted in the reflection of various theories on assessing the performance of state enterprises which includes property rights theory, public choice theory, non-market failure and competition theory. *Arnold et al. (2008*) found that banking, telecommunication and transport reforms had laid significant positive effects on the productivity of manufacturing firms. Services reforms benefited both foreign and locally-owned manufacturing firms, but the effects on foreign firms tended to be stronger. A one per cent standard-deviation increase in the aggregate index of services liberalization resulted in a productivity increase of 6 per cent for domestic firms and 7.5 per cent for foreign enterprises. Further, it has been observed that India's rapid economic growth since the early 1990s has improved the performance of its manufacturing sector.

Scope, Data Source and Methodology

The study is limited to the non-financial central public sector enterprises (PSEs) in India. The sample consists of 209 PSEs. The sample is virtually the universe of representative of the entire industrial group of PSEs in India. Further, the sample size varies from year to year on account of year of incorporation/closure of the sample PSEs and availability of data. The secondary data for this purpose has been collected from the various volumes of Public Enterprises Survey. The period of the study consists of 16 years i.e. 1991-92 to 2006-07 which has been bifurcated into three phases i.e. 1991-92 to 1995-96 (First Phase), 1996-97 to 2000-01 (Second Phase) and 2001-02 to 2006-07 (Third Phase) with intent to judge whether their performance has improved over the years (in these phases) or not. The rationale of the period coverage of the phase has been outlined in the following paragraph.

During 1990's the government was facing a severe fiscal crisis; this inevitably forced the Government of India to introduce reforms in terms of disinvestment and signing of MOUs. Disinvestment process was initiated in 1991-92 and up to 1995-96 partial disinvestments were taking place in piecemeal manner as well as liberalization process started in the year 1991. Therefore, first phase from 1991-92 to 1995-96 has been considered as the initial phase of disinvestment and liberalization. Whereas, during the year 1996-97 the government introduced global depository receipts (GDRs) in international market (Public Enterprises Survey, 2000-01) as well as institutionalized the disinvestment process by constituting the Disinvestment Commission in August 1996 for the period of three years; the term of this has been further extended in November 1999. Till 1999-2000, disinvestment was mainly through sale of minority shares in small lots; this phase has been referred to as the second phase of disinvestment or intermediate phase of liberalization policies (defined as 1996-97 to 2000-01) when many institutions are streamlined. From 2000-2001 the emphasis of disinvestment policy has shifted from partial disinvestment to strategic disinvestment. But, the large volume of strategic disinvestment has taken place from the year 2001-02 onwards. Hence, the third phase for the study relates to 2001-02 to 2006-07, referred to matured phase of liberalization policies.

On the basis of time series data of sixteen years of the sample PSEs (209 in number) mean, median and quartile values of all the 18 ratios (pertaining to profitability, efficiency, liquidity, leverage and productivity) have been computed; the aggregative mean, median and quartiles of all the sample PSEs during each of the respective phase is based on the calculated values of mean of mean values, median of median values and quartile of quartile values of each enterprises during each individual phase. To overcome the distortion in the results pertaining to mean, median, lower and upper quartiles during different phases in the sample enterprises, the enterprises having minimum three years data out of five or six years (as the case may be) have been considered only.

The questionnaire survey has been carried out to collect information related to various aspects, having a bearing on their financial performance. The questions were simple, specific and objective type; opinion based and subjective information/queries were kept to the minimum in order to keep the study more objective and scientific. The analysis is based on 30 responses received out of 209 enterprises after two reminders, email and telephonic conversation. All the 30 respondents have not responded to all the questions contained in the questionnaire. Therefore the responses stating 'not applicable (N.A.)' have not been considered as response to form a part of analysis. *Prima facie*, the response level is low. However, this response level needs to be seen in the light of what is commonly perceived as sensitive nature of information sought for the purpose of the study and much smaller size of sample for the past such studies on the subject in India and abroad.

To determine the change over a period of time among the three phases, paired t test has been carried out. The financial performance of sample enterprises has been measured primarily in terms of ratio analysis pertaining to the several variants of profitability, efficiency, liquidity and solvency. Profitability has been measured based on Du-Pont break up of investment and sales; there are three major concepts of investment, namely, assets, capital employed and shareholder's equity, based on each of them three broad categories of rate of return (ROR) is formed, i.e., return on total assets (ROTA), return on capital employed (ROCE) and return on net worth or shareholder's equity (RONW); the first two RORs determine how efficiently the financial resources are deployed by the PSEs and the third ROR indicates the return earned for their equity owners (government). These rates of return have been computed based on average assets, average capital employed and average net worth; the average is based on their respective values at the beginning and end of the year. ROTA has been determined on the basis of earnings before interest and taxes (EBIT) (which includes other income/receipts); it expresses the relationship between total EBIT earned and average total assets in use (which includes net block of fixed assets, other items in the nature of fixed assets, investments, total current assets and deferred revenue/preliminary expenditure; it excludes accumulated deficits, capital work-in-progress and unallocated expenditures during construction).

Similarly, ROCE indicates how efficiently the long-term funds of the owners and lenders are being used; these rates focus directly on operating efficiency. RONW has been computed dividing net-profit after taxes minus preference divided to the average net-worth (share capital plus reserves minus accumulated deficit and deferred expenditures).

Secondly, return on the basis of sales has been computed in terms of operating profit margin (OPM) and net profit margin (NPM). OPM indicates the magnitude of operating profit in terms of sales; NPM determines the relationship of reported net-profit after taxes to sales; these margins indicate the management ability to perform the business profitably and express the overall cost/price effectiveness (Helfert, 2003).

Similarly, efficiency/effectiveness in utilization of resources has been determined on the basis of three dimensions, i.e., the first one is concerned with the extent of utilization of assets, namely, total assets turnover ratio (TATR), fixed assets turnover ratio (FATR) and current assets turnover ratio (CATR); low turnover is indicative of under-utilization of available resources and presence of idle capacity. TATR indicates the efficiency with which the firm uses its assets to generate sales; in general, higher the firm's TATR, the more efficiently are the assets being used (Gitman, 2009). TATR, FATR and CATR are computed dividing average net sales to average total assets in use, average fixed assets and average current assets respectively. Net-sales exclude excise duty, commission, rebates and discount from gross sales.

The second dimension of efficiency is based on analyzing the change in holding period (in number of days) of various types of inventories and collection period of debtors which are the sub-constituents of current assets as well as measure the change in capacity utilization of fixed assets over a period of time.

Raw material inventory holding period (RMIHP) is the ratio of raw material consumed during the year and average raw materials. Work-in-process inventory holding period (WIPIHP) has been computed on the basis of cost of production and average work-in-progress. Finished goods inventory holding period (FGIHP) is based on the relationship between cost of goods sold and average finished goods. Debtor collection period (DCP) presents the relationship between gross sales (numerator) and average debtor.

The third part provides insight of their capital structure practices and liquidity position. Total debt to total equity (TD/TE) has been used to determine the capital structure practices; it is the relationship between total external obligations and owners funds/shareholders funds or net-worth; shareholders funds include equity capital, preference capital, reserves and surpluses and excludes accumulated deficit and deferred expenditures not written-off. Total debt is inclusive of short term debt as bank/cash credit advances, current liabilities and provisions and long term loans; the reason is the short term advances are ostensibly short term but they are generally renewed year after year and hence, serve the long term needs of the firm (Jain and Yadav, 2005).

Liquidity has been assessed by current ratio (CR) and acid test ratio (ATR). CR takes into account five items of current assets, i.e., cash and bank balances, sundry debtors, inventories, loans and advances and stock of other current assets.
One of the social responsibilities of PSEs is to employ large number of workforce; therefore, it works as a model employer. Their successful operation and productivity to an extent depends on the skill and capability of the workforce. Thus, fourth test is based on analyzing the productivity of capital per manpower which has been determined in terms of level of employment, sales efficiency and net income efficiency ratios. It highlights the employment position (no. of employees, excluding casual and daily wage workers) over a period of time.

The entire set of data has been analyzed by using Statistical Package for Social Sciences (SPSS) and Excel worksheet. To do away with the influence of extreme values, they have been excluded from the data. However, their inclusion has been considered important in the frequency distribution. The details of the excluded values have been described at the footnote of the tables of the respective ratios.

Financial Analysis

The financial performance (FP) of central public sector enterprises (PSEs) has been analyzed in this section over a period of time (sixteen years, 1991-92 to 2006-07, divided into three different phases). This section has been sub-divided into four parts; part-one assesses profitability; part-two examines efficiency; the aspects of leverage and liquidity have been dealt in part-three and productivity of capital has been determined in part-four. Liberalized policies and economic reforms have been indented to improve the financial performance of PSEs. It is hypothesized that the profitability of sample PSEs is likely to be low in the first phase and likely to show improvement in the subsequent phases.

Part-I: Profitability Test

Profitability has been measured in terms of RONW, ROCE, ROTA, OPM and NPM parameters; the values of mean, median, quartile one and quartile three of these ratios have been presented in Tables 1 (including the paired t test) and 2.

Table-1: Mean Values of Key Profitability Ratios of the PSEs, 1991-92 to 2006-07

(Figures are in percentages)

Years	RONW		ROCE		ROTA		OPM		NPM	
	Mean	N	Mean	N	Mean	N	Mean	N	Mean	N
1991-92	7.04	115	6.96	142	2.73	184	5.89	171	0.91	149
1992-93	8.66	118	4.34	147	2.87	182	5.74	169	-0.07	153
1993-94	6.40	123	4.02	144	2.47	180	5.11	169	-0.70	153
1994-95	6.14	122	4.54	140	2.37	181	6.25	165	0.25	151
1995-96	8.55	115	4.98	135	3.15	179	7.02	168	2.46	150
1996-97	8.69	113	5.54	144	3.60	175	10.02	160	4.11	148
1997-98	9.03	113	3.69	148	3.64	173	7.76	161	1.75	149
1998-99	7.79	116	1.59	151	1.74	173	5.50	163	0.57	148
1999-00	6.68	114	-2.05	146	-0.22	176	2.25	156	-2.33	152
2000-01	6.84	108	1.41	144	0.38	175	4.43	152	-0.02	144
2001-02	9.49	109	1.08	134	1.68	172	5.21	147	-0.03	139
2002-03	11.66	108	2.38	137	2.19	169	4.92	152	0.46	142
2003-04	16.34	110	6.77	136	4.85	171	7.68	147	2.93	138
2004-05	17.44	111	9.13	136	4.59	170	8.97	150	6.68	142
2005-06	17.94	113	8.56	134	6.29	167	12.91	149	8.40	139
2006-07	17.17	110	7.18	126	6.43	147	12.22	131	9.33	131
Mean 1991-92	7.39	124	4.56	148	1.91	189	5.46	176	0.70	154
Mean 1996-97 to	7.49	118	1.56	152	1.46	180	5.78	165	0.32	153
Mean 2001-02 to	14.15	120	5.53	147	3.83	178	8.34	158	4.12	149
Mean 1991-92 to	9.68		3.88		2.40		6.53		1.71	

Notes: 1 . PSEs having negative net-worth have been excluded and RONW has been based on net profit.

2. OPM and NPM stand for operating profit margin and net-profit margin on sales.
3. ROTA is based on earnings before interest and taxes (EBIT).
4. ROCE is based on operating profit which excludes non-operating incomes (or other incomes) from EBIT.
5. ROTA- return on total assets, ROCE-return on capital employed, RONW- return on net worth, OPM- operating profit margin and NPM- net profit margin.
6. RONW- plus/minus 75 per cent, ROCE- plus/minus 75 per cent, ROTA- plus/minus 50 per cent, OPM- plus/minus 75 per cent and NPM- plus/minus 60 per cent have been excluded.

These points hold true for other Tables mentioned in this paper.

Paired Sample T Test

Ratios	Paired mean difference						Significance (two tailed)		
	Phases 1&2	df	Phases 2&3	df	Phases 3&1	df	Phases 1&2	Phases 2&3	Phases 3&1
RON	2.34	10	-5.21	10	-4.68	97	0.07	0.00**	0.00**
ROCE	4.10	13	-1.50	13	0.35	12	0.00**	0.31	0.85
ROTA	2.55	17	-1.73	16	0.00	16	0.00**	0.03*	0.91
OPM	2.48	15	0.12	14	1.83	14	0.04*	0.93	0.26
NPM	1.35	14	-1.31	13	-0.75	12	0.17	0.18	0.59

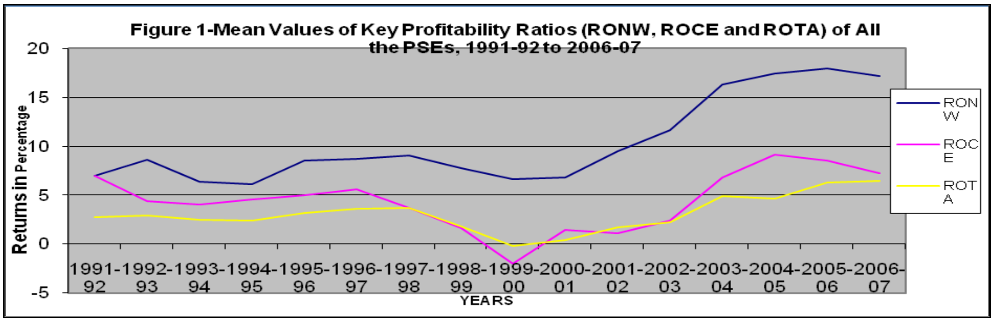
** signifies to significant difference at 1% level and * signifies to significant difference at 5% level.

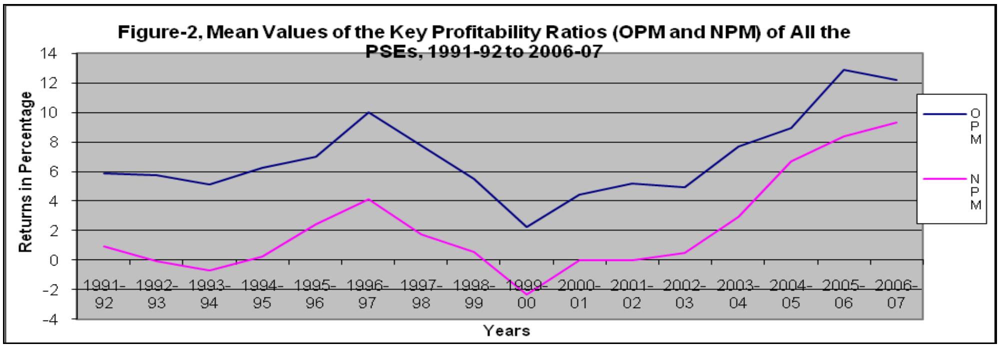
Table-2: Median, Lower (Q1) and Upper Quartile (Q3) Values of Key Profitability Ratios of the PSEs, 1991-92 to 2006-07

(Figures are in percentages)

Ratios	Median			Q1			Q3		
	Phase	Phase	Phase	Phase	Phase	Phase	Phase	Phase	Phase
RONW	8.04	8.13	13.06	-0.15	0.76	2.07	20.01	19.20	29.48
ROCE	5.34	2.69	7.17	-5.90	-15.19	-14.54	16.76	17.67	26.62
ROTA	5.22	4.77	5.04	-6.64	-8.71	-7.74	11.57	12.11	16.65
OPM	6.90	5.59	6.26	-5.34	-7.78	-7.92	18.13	20.19	24.31
NPM	2.07	1.43	3.90	-8.92	-11.19	-6.51	11.17	11.82	16.22

The findings are in conformity with the expectations as substantial improvement has been observed in the mean profitability of PSEs during the third phase (2001-02 to 2006-07) *vis-à-vis* first (1991-92 to 1995-96) and second phase (1996-97 to 2000-01); the improvement is notable in the cases of RONW, ROTA (more than two times), one and half times for OPM and nearly six times for NPM during phase three compared to phase one. Median results are in tune with mean results (Table 2). The results are statistically significant during first as well as second phase (in all the measures of profitability, except RONW and NPM), during third and second phases (in RONW and ROTA) and in third and first phases (in RONW only) as per paired t test. The findings support the hypothesis of better profitability in subsequent phases (two and three) compared to the phase one in the sample PSEs (Figures 1 and 2).





Public enterprises have earned positive operating profit (profit before interest and tax) during the entire period of the study. However, net-profit record has not been equally good in all the years due to higher amount of provision of income tax and interest burden. The reason for higher interest may be ascribed to more than four-fold increase in investments of PSEs during the period of the study. Investment in PSEs has grown from Rs.99,329 crore (Rs.993290 millions) as on 31.03.1990 to Rs. 4, 21,089 crore (Rs.4210890 millions) as on 31.3.2007 (Public Enterprises Survey 2006-07, Vol. I). The study indicates that the profitability of one-fourth of the public enterprises has deteriorated in respect of ROCE, ROTA, OPM and NPM over a period of time (as per quartile one result); it has recorded a significant improvement in respect of one-fourth of PSEs (as per quartile three).

Frequency distribution data is more revealing (please refer to Annexures A.1 to A.5). The sizeable numbers of enterprises have incurred negative return on their investments (or losses); they are in the range of one-fifth to one-fourth, more than one-third to one-half, three-seventh to less than one-half, three-seventh to two-fifth and two-fifth to less than one-half enterprises in the cases of RONW, ROCE, ROTA, OPM and NPM respectively up to year 2003. However, it is gratifying to note that the number of loss-incurring PSEs has declined to 5.8, 34.1, 24.1, 18.3 and 22.6 per cent (in 5 measures of profitability respectively) in the subsequent years. Further, the modal class group of the enterprises earning positive return are in the range of about three-fifth to three-fourth in the case of RONW (0 to 30 per cent), two-fifth to three-fifth for ROCE (0 to 30 per cent), one half to more than three-fifth for ROTA (0 to 25 per cent), two-fifth to more than one-half for OPM (0 to 25 per cent) and less than one-half for NPM (0 to 25 per cent).

It is gratifying to learn from the questionnaire survey that two-third of the sample PSEs are computing the return on total assets (ROTA) on theoretically and conceptually sound basis, that is, dividing earnings after taxes (EAT) + interest – tax savings on interest by the average assets (Table 3). Likewise, equally satisfying observation from the survey has been that a vast majority (five-sixth) of the responded PSEs has mentioned that the compounded annual growth rate (CAGR) in their net-profits has been satisfying during 2003-2008 (Table 4). In view of the above, it is reasonable to infer that there has been an improvement in profitability of sizeable number of the sample PSEs during the third phase of the study. The enterprises which have shown improvement in profitability either have increased their profits or reduced losses over a period of time (Public Enterprises Survey 2002-03, Vol. I).

The survey findings (tabulated in Table 5) indicate that the four-fifth of responded PSEs reckon to maximize earnings and return on investment (ROI) as their most important objectives out of all the objectives. Desired EPS has been considered to be very important nearly by one-half of the PSEs. It is surprising to note that to maximize share prices is the least preferred choice. It is very apparent from Table 6 that compensation in terms of reward to chairman or top executives is not in tune with the financial performance of the company in the vast majority of the responded PSEs (87 per cent); it might have (perhaps) been a de-motivating factor which affects the effectiveness and profitability of these enterprises.

Table 3: Survey Response to Sound Basis* of Computing ROA Followed by Sample PSEs in India

Opinion	Public Sector Enterprises (Responded 30)	
	In No.	In %
Yes	19	66.7
No	8	33.3
Total	27	100.0

*ROA (EAT+ Interest-Tax Savings on interest) divided by Average Total Assets.

Table 4: Survey Response on Compounded Annual Growth Rate of Net Profit of Sample PSEs in India from 2003-2008

S.no	Options	Public Sector Enterprises (Responded 30)	
		In No.	In %
1	Satisfactory	25	86.21
2	Barely Satisfactory	1	3.45
3	Unsatisfactory	3	10.35
	Total	29	100.00

Table 5: Financial Objectives Followed by Sample PSEs in India

Options	Maximize return on Investment		Desired Earning Per Share		Maximize Share Prices		Maximize Earnings	
	In No.	In %	In No.	In %	In No.	In %	In No.	In %
Very important	24	80.0	17	56.7	8	28.57	24	80.0
Important	2	6.7	9	30.0	12	42.85	4	13.4
Not important at all	4	13.3	4	13.3	8	28.57	2	6.7
Total	30	100.0	30	100.0	28	100.00	30	100.0

Table 6: Survey Response on Chairman's Compensation in tune with Financial Performance Followed by Sample PSEs in India

Options	Public Sector Enterprises (Responded 30)	
	In No.	In %
Yes	3	13.04
No	20	86.96
Total	23	100%

Part II: Efficiency Test

This part assesses efficiency, as the second variant of measuring the financial performance of public sector enterprises, in terms of assets turnover (current as well as fixed), determination of inventory holding period and debtors collection period, as turnover is the primary mode to measure the extent of utilization of assets. Low turnover ratios are indicative of under-utilization of available resources and presence of idle capacity. The government has introduced several policies to enhance the operational efficiency and competitiveness in them. Therefore, it is hypothesized that the assets utilization capacity of the sample PSEs has improved over a period of time.

The mean, median, quartile one and quartile three values of the assets turnover i.e., TATR, FATR and CATR are contained in Tables 7 and 8; paired t test affiliated to these (turnover) ratios is presented in Table 7. Relevant data relating to TATR indicates an unsatisfactory position, the mean TATR is 0.77 (less than one) during the time span of 16 years (1991-92 to 2006-07) of the study, the range being 0.73 (1994-95) and 0.80 (1995-96). Median at 0.65 manifests more dismal position. Likewise, lower quartile results are dissatisfactory as one-fourth of the enterprises are generating TATR of less than 0.32. Even upper-quartile value indicates that top performing one-fourth of the enterprises have TATR greater than 1.05 only. In computing the TATR, total assets in use consists of fixed assets net of depreciation, investments, current assets and deferred revenue expenditure.

In sum, it is reasonable to conclude that TATR of the sample enterprises is far from satisfactory. As per trend also, there has been no improvement as no significant difference has been observed (as per paired t test) among all the turnover ratios over the years. Similar conclusions follow from the frequency distribution as modal class group of about three-fourth of the enterprises lies where TATR is less than one (please refer to Annexure A.6). The findings do not support the hypothesis of an improvement in assets utilization capacity of PSEs over a period of time.

Table-7: Mean Values of Key Turnover Ratios of the PSEs, 1991-92 to 2006-07

(Figures are in Times)

Years	TATR		FATR		CATR	
	Mean	N	Mean	N	Mean	N
1991-92	0.78	186	3.30	160	1.27	183
1992-93	0.77	190	3.12	165	1.32	188
1993-94	0.75	190	3.02	166	1.22	187
1994-95	0.73	189	3.05	167	1.27	188
1995-96	0.80	191	3.33	166	1.35	188
1996-97	0.77	191	3.36	165	1.25	190
1997-98	0.76	190	3.33	169	1.22	189
1998-99	0.75	191	3.04	168	1.19	191
1999-00	0.76	192	3.35	170	1.22	188
2000-01	0.76	191	3.12	167	1.28	189
2001-02	0.73	197	2.81	168	1.20	190
2002-03	0.74	195	2.83	165	1.33	191
2003-04	0.73	197	2.86	168	1.25	192
2004-05	0.76	192	3.21	159	1.29	186
2005-06	0.74	187	3.22	153	1.20	179
2006-07	0.73	174	3.17	141	1.20	167
Mean 1991-92 to1995-96 (phase-1)	0.78	192	3.20	168	1.31	190
Mean 1996-97 to 2000-01(phase-2)	0.77	192	3.39	174	1.24	191
Mean 2001-02 to 2006-07(phase-3)	0.75	196	3.17	172	1.25	193
Mean 1991-92 to 2006-07 (phase-1+2+3)	0.77		3.25		1.27	

Notes: 1. TATR-total assets turnover ratio, FATR- fixed assets turnover ratio, CATR-current assets turnover ratio and N-nn.of firms.

2. TATR- 4 and above, CATR-6 and above and FATR-12 and above have been excluded.

These abbreviations and exclusion of extreme items also apply for other Tables mentioned in this paper.

Paired Sample T Test

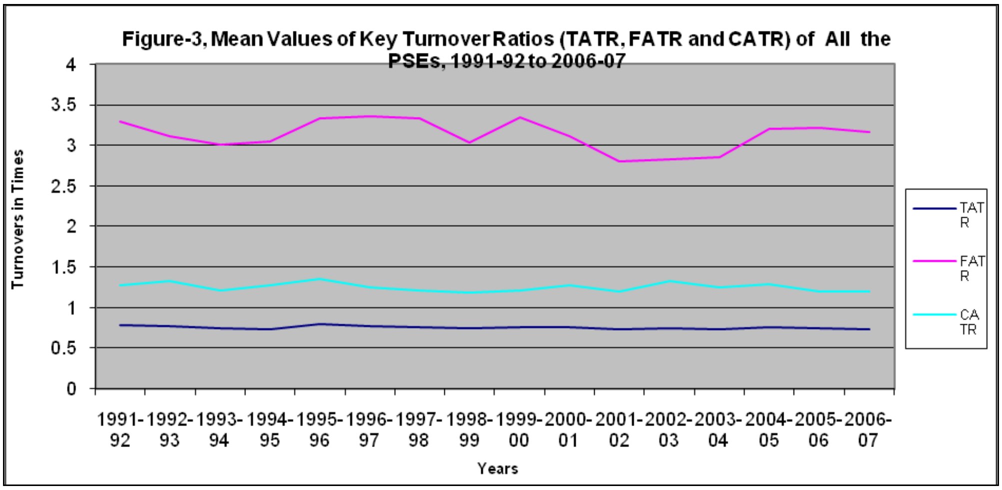
Ratios	Mean difference						Significance (two tailed)		
	Phases 1&2	df	Phases 2&3	df	Phases 3&1	df	Phases1 &2	Phases 2&3	Phases 3&1
TATR	-0.02	188	0.01	18	0.00	18	0.54	0.71	0.90
FATR	-0.13	160	0.06	15	-0.07	15	0.36	0.70	0.72
CATR	0.01	185	0.01	17	-0.04	17	0.75	0.84	0.55

** signifies to significant difference at 1% level and * signifies to significant difference at 5% level

Table-8: Median, Lower Quartile (Q1) and Upper Quartile (Q3) Values of Key Turnover Ratios of the PSEs, 1991-92 to 2006-07

(Figures are in Times)

Ratios	Median			Q1			Q3		
	Phase	Phase	Phase	Phase	Phase	Phase	Phase	Phase	Phase
TATR	0.65	0.65	0.62	0.32	0.29	0.21	1.05	1.07	1.12
FATR	2.39	2.18	2.18	0.89	0.81	0.75	5.58	6.37	5.69
CATR	1.07	1.07	0.89	0.56	0.47	0.36	1.82	1.82	1.93



Total assets, *inter-se*, the utilization of current assets seems to be far from satisfactory, the mean ratio being 1.27 for the entire period of the study. In contrast, FATR presents a better picture relating to utilization of fixed assets; the mean of the FATR over a period of time (16 years) is 3.25; it is more than 3 times in most of the years of the study (13 out of 16 years); Figure 3 portrays the trend.

There are similar conclusions based on median and quartile values. The FATR is more than two for half of the organizations (median); it is more than five for one-fourth of the sample PSEs (upper quartile). The CATR hovers around one for half of the enterprises (median) and it is around 0.5 for one-fourth of PSEs (lower quartile). Above all, it has been observed from the median and quartile results that the current assets, fixed assets and total assets turnover have declined moderately over all the three phases; however, this difference is insignificant as per paired t test. Given the satisfactory level of FATR, unsatisfactory level of TATR may primarily be attributed to low CATR.

Data pertaining to frequency distribution are supportive to the above findings (please refer to Annexures A.7 and A.8). For instance, less-than one fourth of the sample PSEs have FATR of less than one; likewise, 40 to 50 per cent of such enterprises have CATR of less than one. In operational terms, it implies that the firm is carrying excessive current assets and total assets than warranted by its sales/production. Clearly, under-utilization of total resources (at the command of the most of the sample PSEs) seems to have caused a dent in their profitability. There is an imperative need of better utilization of resources/ capacity/infrastructure on the part of the managers of most of the sample PSEs.

The second dimension of efficiency focuses on change in holding period of various types of inventories and debtor collection period (DCP). The inventory consists of raw materials inventory holding period (RMIHP), work-in-process inventory holding period (WIPIHP) and finished goods inventory holding period (FGIHP). It is expected that there will be a decrease in holding period of various types of inventories due to liberalization which has improved management practices and means of communication. Above all, globalization of Indian economy has provided a situation of better availability of raw materials and other supplies.

The objective of inventory management consists of two counter balancing parts, namely, to minimize investments in inventory (with a view to reduce carrying cost) and to meet demand for the product by efficient production and sales operations (to minimize stock-out cost); in operational terms, its goal is to have a trade-off between cost and benefit associated with holding of inventory. The aggregative (mean) and positional values (median, lower and upper quartiles) of RMIHP, WIPIHP and FGIHP as well as of DCP have been exhibited in Tables 9 and 10 respectively; paired t test is dealt in Table 9.

It has been observed that the mean of the entire period (16 years) of RMIHP is nearly six months (172 days) which, *per-se,* appears to be high; as per trend, it is satisfying to note the declining trend. For instance, it has been in the range of nearly five and half months (163 days) to more than six months (190 days) till the year 2002-03, which has declined subsequently to four months by 2006-07. Likewise, one-fourth of the PSEs were holding raw materials nearly from nine to ten months up to phases one and two; this period reduced to eight months (244 days) during the third phase (as per Q3 results). In this regard, median and lower quartile (Q1) values are more revealing; raw materials holding period reduces from four and half months to three months (as per median) and from two months to less-than one-and-half months (as per Q1).

Paired t test has also corroborated the above results; it indicates that there is a significant difference in RMIHP between second and third phases as well as in first and third phases. Frequency distribution data is equally revealing. It indicates that the PSEs (in the range of one-fourth to two-fifth) have RMIHP of more than six months; in contrast, model class group of two-fifth to three-fifth of the PSEs have been holding inventory for less than four months (Annexure A.9). It is gratifying to note that as expected there has been a decrease in RMIHP as shown in Figure 4. The decrease in RMIHP is in tune with the importance attached to materials management by the Department of Public Enterprises in this regard: materials management is one of the key factors for improving performance of any unit. Higher inventories saddle an organization with avoidable costs besides blocking scarce funds which might be required by the enterprise for its own operations.

Table-9: Mean Values of Inventory Holding Period (IHP) and Debtor Collection Period (DCP) of the PSEs, 1991-92 to 2006-07

(Figures are in no. of days)

Years	RMIHP		WIPIHP		FGIHP		DCP	
	Mean	N	Mean	N	Mean	N	Mean	N
1991-92	181.18	144	26.71	133	33.59	149	90.03	177
1992-93	174.37	148	29.83	133	35.21	150	91.94	178
1993-94	176.29	148	28.47	134	36.67	152	96.85	182
1994-95	174.99	143	27.01	135	35.03	152	97.58	182
1995-96	163.23	142	25.69	135	30.90	153	93.28	177
1996-97	176.78	147	24.05	135	27.46	152	96.07	179
1997-98	187.43	145	25.78	137	24.34	154	97.58	180
1998-99	190.40	144	25.74	138	21.77	154	99.09	180
1999-00	173.95	142	25.85	138	19.44	154	96.01	179
2000-01	164.29	139	18.73	136	21.97	155	97.23	180
2001-02	180.69	135	21.02	129	21.74	151	97.76	174
2002-03	171.20	135	19.35	128	19.81	149	97.08	178
2003-04	139.97	145	20.02	127	21.42	147	90.66	177
2004-05	139.37	147	16.63	125	19.11	142	81.08	173
2005-06	135.70	142	18.10	123	20.12	134	76.54	168
2006-07	121.02	131	22.02	115	19.13	131	79.03	155
Mean 1991-92 to1995-96 (phase-1)	178.01	151	27.33	135	34.39	153	95.83	184
Mean 1996-97 to 2000-01(phase-2)	184.18	150	25.23	139	22.84	155	98.82	182
Mean 2001-02 to 2006-07(phase-3)	152.96	152	22.33	132	19.82	153	87.91	181
Mean 1991-92 to 2006-07	171.66		24.96		25.68		94.19	

Notes: 1. DCP- debtors Collection period, RMIHP- raw materials inventory holding period, WIPIHP- work-in-progress inventory holding
Period, FGIHP-finished goods inventory holding period and N- number of PSEs.

2. RMIHP- 770 days and above, DCP- 365 days and above, WIPIHP-365 and FGIHP-270 days and above have been excluded.

These abbreviations and exclusion of extreme items also apply for other Tables mentioned in this section.

Paired Sample T Test

Ratios	Paired mean difference						Significance (two tailed)		
	Phases 1&2	df	Phases 2&3	df	Phases 3&1	df	Phases 1&2	Phases 2&3	Phases 3&1
RMIH	-3.55	1	40.51	13	36.04	12	0.74	0.00**	0.00**
WIPIH	3.86	1	6.66	12	10.03	12	0.06	0.01**	0.00**
FGIHP	15.28	1	4.12	14	15.28	14	0.00**	0.01**	0.00**
DCP	-6.62	1	10.18	16	3.95	15	0.04*	0.01**	0.36

** signifies to significant difference at 1% level and * signifies to significant difference at 5% level.

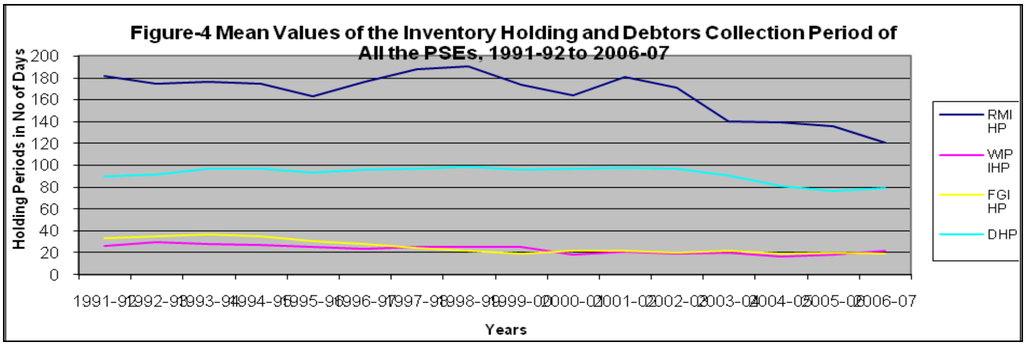


Table-10: Median, Lower (Q1) and Upper Quartile (Q3) Values of Inventory Holding and Debtors Collection Period of the PSEs, 1991-92 to 2006-07

(Figures are in no. of days)

Ratios	Median			Q1			Q3		
	Phase	Phase	Phase	Phase	Phase	Phase	Phase	Phase	Phase
RMIHP	130.74	138.21	91.12	56.67	65.95	39.58	267.52	296.97	244.52
WIPIHP	9.22	6.14	7.16	0.94	1.09	0.46	47.18	36.81	35.78
FGIHP	21.00	15.00	10.00	5.00	2.50	2.00	57.00	34.50	33.00
DCP	75.81	80.13	67.06	30.00	29.17	21.27	159.61	159.87	150.84

The other two constituents of inventory, WIPIHP and FGIHP, lie in between 16 to 30 days and 19 to 37 days respectively during the entire period of the study; their respective mean holding periods are 25 and 26 days. As per trend, better performance has been noted in phase three. There has been a marked decline in holding period of both types of inventories (WIPIHP and FGIHP) compared to previous two phases (as per mean, lower and upper quartiles); significant difference is also identified in between all the three phases (as per paired t test). Further, median and lower quartile results are more gratifying in that nearly three-fourth enterprises have holding period of work-in-progress and finished goods of less than 9 days and 21 days respectively; *inter-se*, one-fourth of the PSEs have WIPIHP of less than one day and FGIHP of 5 days during all the three phases. Moreover, frequency distribution (Annexures A.10 and A.11) also suggests that the model class group of WIPIHP of almost three-fourth to four-fifth of the PSEs and FGIHP of more than three-fifth to nine-tenth of the enterprises has been less than 30 days. Therefore, it is worth noting that the inventory holding period of various types of inventories has shown a decrease; this finding supports the hypothesis of better utilization of inventories over a period of time.

For the entire 16 years period of the study, the mean debtors collection period (DCP) is more than three months. *Prima-facie,* the DCP appears to be on higher side. However, as per trend, it is gratifying to note reduction in the DCP. The decrease is more pronounced in phase three w.e.f. 2004-05. As a result, significant difference has been observed in first and second phase as well as in second and third phase as per paired t test (Table 9). This decrease further gets reinforced by decrease in median and lower quartile values of three-fourth of the sample PSEs during phase three *vis-à-vis* previous two phases; among these, half of the PSEs have the DCP of nearly two months and one-fourth have one month. Only in the case of one-fourth of the public enterprises (as per upper quartile) have shown DCP of more than five months in all the phases (*albeit,* marginal decrease). Data pertaining to frequency distribution (Annexure A.12) also validates the above results, as model class group of more than half of the PSEs have DCP of less than three months.

The survey findings (based on the opinion of the responding PSEs) re-inforce the contention that there has been a reduction in the debtor collection period. Nearly half of the managers of the sample PSEs have stated that there has been a decline in the debtor collection period (Table 11); Likewise, decrease in bad debt losses has been mentioned by more than two-fifth of the respondents.

Table 11: Opinion of Sample PSEs Related to the Trend of DCP and Bad-Debt Losses in India

Options	Debtor Collection		Trend of Bad Debt		Inventory Holding	
	In No.	In %	In No.	In %	In No.	In %
Increase	6	20.69	2	7.69	5	17.86
Decrease	13	44.83	11	42.31	12	42.86
Steady	10	34.48	13	50.00	11	39.29
Total	29	100.00	26	100.00	28	100.00
Missing	1		4		2	

Table 12: Opinion to Handle the Usage of Inventories, Adopted by the Sample PSEs in India

S.no	Options	Public Sector Enterprises (Responded 30)	
		In No.	In %
1	On the basis of demand forecast	5	16.67
2	On the basis of production needs	18	60.00
3	On the basis of expected sales volume	7	23.33
	Total	30	100.00

Table 13: Macro-Economic Factors Affecting the Productivity of the Responded PSEs in India

Options	Govt Policies		Product Demand -Supply Gap		Pricing & Availably of Raw materials		Industry Trend		Govt. Interference in Org. Functioning	
	In No.	In %	In No.	In %	In No.	In %	In No.	In %	In No.	In %
Very Important	14	73.69	17	85	13	72.33	8	44.45	5	31.25
Important	4	21.05	3	15	5	27.78	10	55.56	8	50.0
Not Important	1	5.26							3	18.75
Total	19	100	20	100	18	100	18	100	16	100
Missing	11		10		12		12		14	

Table 14: Macro-Economic Factors Affecting the Profitability of the Responded PSEs in India

Options	Govt Policies		Product Demand -Supply Gap		Pricing & Availably of Raw Materials		Industry Trend		Govt. Interference in Org. Functioning	
	In No.	In %	In No.	In %	In No.	In %	In No.	In %	In No.	In %
Very Important	19	90.48	15	78.95	14	77.78	8	44.45	5	27.78
Important	2	9.52	4	21.05	4	22.23	9	50	10	55.55
Not Important							1	5.56	3	16.67
Total	21	100	19	100	18	100	18	100	18	100

As far as inventory holding period (IHP) is concerned, more than two-fifth of the respondents have experienced decrease in it (Table 11); less than one-fifth of the sample PSEs have stated increase in the IHP. This decrease in the IHP may primarily be attributed to the fact that a vast majority of the respondent PSEs have inventories to conform to their production requirements (Table 12).

Survey data related to the impact of macro-economic factors (such as, government policies, product demand and supply, pricing of raw materials, industry trend and government interference) that affect the productivity and profitability of the PSEs have been presented in Tables 13 and 14; among the cited factors government policies, product demand and supply gap and pricing and availability of raw materials have been considered as the very important factors that affect the profitability and productivity of nearly three-fourth to four-fifth of the PSEs, whereas, industry trend and government interference in organizational functioning are the less important factors in nearly one-fourth to two-fifth of the PSEs. Control lies in the government hand and the major policy decisions, such as, administrative price mechanism, price fixation, financial power etc are still lying under the government control which affect the functioning and financial performance of these PSEs.

Part-III: Leverage and Liquidity Test

The objective of this part is to examine the financing pattern of the sample PSEs in India in terms of major capital structure (leverage) and working capital (liquidity) ratios with intent to assess whether they are satisfactory or not. Major ratio for the purpose of the study is total debt (total external obligations including current liabilities) to total equity (TD/TE) relating to capital structure; current ratio (CR) and acid test ratio (ATR) constitute subject matter of liquidity ratios.

The mean TD/TE of the sample enterprises is 1.94 (lies in the range of 1.46 to 2.32) during 1992-2007 (Table 15 and Figure 5); the median values are in the range of 1.25 to 1.89 (Table 16). These values signify that debt is the major source of financing to a large majority of the sample PSEs. Given the fact that total debt (in our present context has been defined to include not only long-term debt but also all other short-term obligations to judge true margin of safety for external stakeholders), the TD/TE ratio of less than two may be considered satisfactory. As per trend, it is gratifying to note that there has been a decrease in the mean (though not statistically significant) as well as median D/E ratio over the years of the study.

Notwithstanding the above, there is a need to reduce the share of debt financing for about one-fourth of PSEs (as per Q3) as most of such enterprises have their TD/TE ratio hovering around 3:1, *per-se*, on the higher side. Frequency distribution (based on inclusion of extreme values) is more revealing in this respect. It indicates that nearly one-fourth of the sample PSEs have TD/TE ratio more than 4:1 and out of them more than one-tenth have 8:1 (Annexure A.13).

Jain and Yadav (2005) have eloquently described the importance of adequate liquidity, it is to meet short-term maturing obligations as and when they become due; in fact, maintenance of adequate liquidity without impairing profitability is the foremost requirement of sound working capital requirement. Excessive liquidity may be desired by short-term creditors, as they are interested in the ability of the firm to pay them in time; it may be undesirable to carry excessive funds as these funds are either non-earning or earn very little, indicative of slack management practices. The PSEs should, therefore, maintain adequate liquidity in terms of satisfactory CR and ATR which, in turn, also depends on their access to sources of funds and ease with which these funds can be tapped in times of need. In general, sizeable number of PSEs in India have arrangements of short-term credit needs, say, in the form of bank borrowings/overdraft and cash-credit limit from banks which facilitate them to operate on the lower margin of working capital reflected in relatively lower current ratio (CR) as well as acid test ratio (ATR). It is important to mention that conventionally CR 2:1 and ATR 1:1, are considered satisfactory.

Table-15: Mean Values of Key Leverage and Liquidity Ratios of the Sample PSE, 1991-92 to 2006-07

(Figures are in Times)

Years	Leverage Ratio		Liquidity Ratios			
	TD/TE		CR		ATR	
	Mean	N	Mean	N	Mean	N
1991-92	2.06	108	1.71	183	0.84	183
1992-93	1.94	113	1.63	187	0.79	187
1993-94	2.32	116	1.51	185	0.78	188
1994-95	2.19	111	1.51	190	0.75	188
1995-96	1.95	107	1.49	193	0.79	190
1996-97	1.74	103	1.71	190	0.84	191
1997-98	1.65	104	1.65	190	0.83	190
1998-99	1.61	104	1.59	190	0.82	191
1999-00	1.81	101	1.47	189	0.79	192
2000-01	1.62	97	1.54	186	0.82	185
2001-02	1.76	97	1.48	189	0.79	185
2002-03	1.67	95	1.51	189	0.82	185
2003-04	1.46	96	1.44	186	0.84	184
2004-05	1.56	100	1.41	185	0.80	181
2005-06	1.69	106	1.48	179	0.87	171
2006-07	1.80	107	1.77	170	1.03	167
Mean 1991-92 to 1995-96(phase-1)	2.23	120	1.57	193	0.80	191
Mean 1996-97 to 2000-01(phase-2)	1.79	107	1.61	195	0.82	193
Mean 2001-02 to 2006-07(phase-3)	1.80	117	1.54	193	0.88	188
Mean 1991-92 to 2006-07(phase-	1.94		1.58		0.83	

Notes: 1. CR- current ratio, ATR- acid test, TD/TE- total debt/total and N-number of firms.

2. CR consisting value 6 and above, ATR- 4 and above and TD/TE-7 and above have been excluded.

These abbreviations and exclusion of extreme items also apply for other Tables mentioned in this sub-section.

Paired Sample T Test

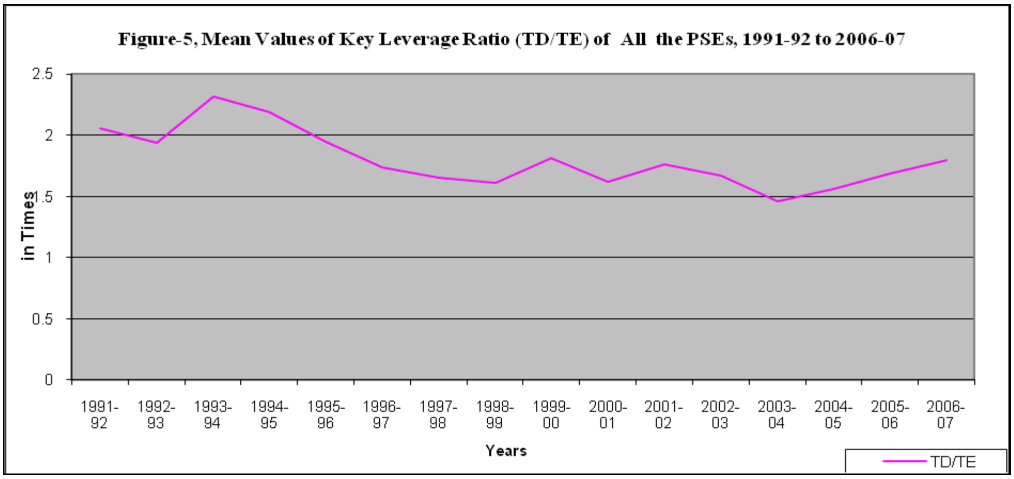
Ratios	Paired mean difference						Significance (two tailed)		
	Phases	df	Phases	df	Phases	df	Phases	Phases	Phases
TD/TE	0.15	95	-0.05	92	0.26	92	0.15	0.71	0.11
CR	-0.04	188	0.11	179	0.05	177	0.47	0.06	0.47
ATR	-0.04	186	-0.03	175	-0.08	171	0.36	0.46	0.13

** signifies to significant difference at 1% level and * signifies to significant difference at 5% level.

Table-16: Median, Lower (Q1) and Upper Quartile (Q3) Values of Key Leverage and Liquidity Ratios of the Sample PSEs, 1991-92 to 2006-07

(Figures are in Times

Ratios	Median			Q1			Q3		
	Phase	Phase	Phase	Phase	Phase	Phase	Phase	Phase	Phase
TD/TE	1.89	1.48	1.25	0.76	0.70	0.44	3.61	2.82	3.13
CR	1.41	1.43	1.33	0.64	0.71	0.63	2.28	2.31	2.26
ATR	0.59	0.69	0.71	0.22	0.25	0.26	1.20	1.33	1.35



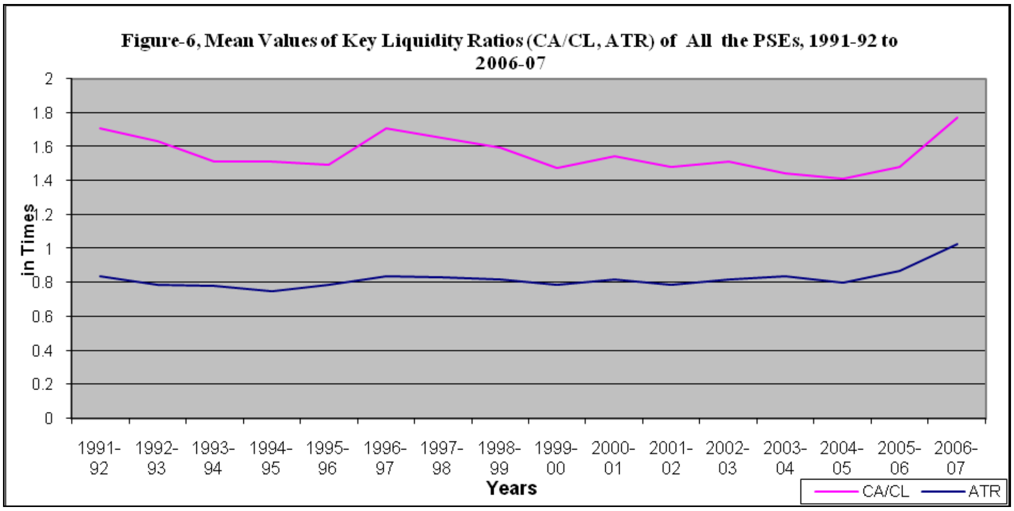


Table 16 highlights that one-fourth of the PSEs (as per upper quartile) have almost satisfied to the convention of liquidity (CR and ATR) during all the three phases; out of remaining three-fourth PSEs, the liquidity position of one-fourth enterprises (as per lower quartile) is tremendously low and remaining one-half (as per median) have also low liquidity, i.e., 0.63 to 1.43 for CR. and 0.22 to 0.71 for ATR (which is less than half of the convention). The mean CR and ATR over a period of 16 years are 1.57 and 0.83 respectively (Table 15 and Figure 6); the difference is insignificant as per paired t test in the measures of liquidity and leverage. Similar conclusions follow on the basis of frequency distribution; the vast majority (nearly 60 to 75 per cent) of the enterprises have CR less than two and ATR less than one (Annexures A.14 and A.15).

Part-IV: Productivity Test

Employment level, productivity of capital per employee in terms of sales efficiency and net income efficiency (NIE) have been measured under the fourth variant of productivity. It is expected that economic reforms and liberalized policies would have enhanced the productivity of capital in sample PSEs.

It has been observed that the number of employees (employment) has declined in accordance with voluntary retirement scheme (VRS) targets in all the three phases; the decrease in the manpower of the PSEs may be considered significant as its workforce has declined nearly by 16 per cent, 43 per cent, 61 per cent and 54 per cent as per mean, median, quartile one and quartile three results respectively during third phase compared to first phase (Tables 17 and 18); Figure 7 highlight the trend. It is corroborated by paired t test; it has exhibited significant difference among all the three phases.

Perhaps as a sequel to it, improvement in the mean values of sales efficiency (SE) has been noted over a period of sixteen years; enhancement in these may be marked as impressive as it has been two fold during second phase compared to first phase and four fold in phase three *vis-à-vis* phase one. Increasing trend has also been observed in the median and quartile (lower and upper) results of sales efficiency ratio as well as in Figure 8. In marked contrast, findings are quite similar in the case of net income efficiency (NIE), showing almost two fold and three-and-half fold increase during the similar time frame (Figure 8). Thus, the findings are in conformity with the earlier stated hypothesis.

In fact, the mean NIE is less than 1 per cent upto the year 2001-02 as well as during first and second phases; though notable increase has been observed in phase three, *albeit* statistically insignificant as per paired t test. Trivedi (1986) suggests that controlled output prices (while input prices continue to increase) setting up non-commercial objectives, different output mix, over-employment, corruption and lack of autonomy would be the reasons of their poor performance; he is of the view that more autonomy in the presence of multiple objectives will lead to more self seeking behavior by public enterprise management.

Table-17: Mean Values of Key Productivity Ratios of the Sample PSEs, 1991-92 to 2006-07

Years	Employment		Sales Efficiency		NIE	
	Mean	N	Mean	N	Mean	N
1991-92	10,867	189	10.05	189	0.19	189
1992-93	10,631	191	11.23	191	0.35	191
1993-94	10,202	192	11.49	192	0.10	192
1994-95	10,166	192	13.40	192	0.25	192
1995-96	10,079	193	15.83	192	0.14	193
1996-97	9,940	197	17.32	197	0.47	195
1997-98	10,307	197	20.95	197	0.55	196
1998-99	9,443	197	23.55	197	0.52	196
1999-00	9,419	197	31.03	197	0.45	196
2000-01	8,676	196	37.26	197	0.38	194
2001-02	9,783	203	44.42	198	0.66	192
2002-03	9,245	200	61.90	198	1.01	193
2003-04	8,811	198	88.86	198	1.49	192
2004-05	8,762	192	112.21	191	2.32	184
2005-06	8,629	189	119.54	187	2.00	180
2006-07	8,872	176	166.20	175	2.44	164
Mean 1991-92 to1995-96	10323	193	12.36	192	0.21	193
Mean 1996-97 to 2000-01	9548	197	25.89	198	0.50	196
Mean 2001-02 to 2006-07	8720	203	95.61	198	1.71	192
Mean 1991-92 to 2006-	9530		44.62		0.81	

Note: NIE- stands for net income efficiency and NIE above plus/minus 60 has been excluded.

This abbreviation and exclusion of extreme item also apply for other Tables mentioned in this sub-section.

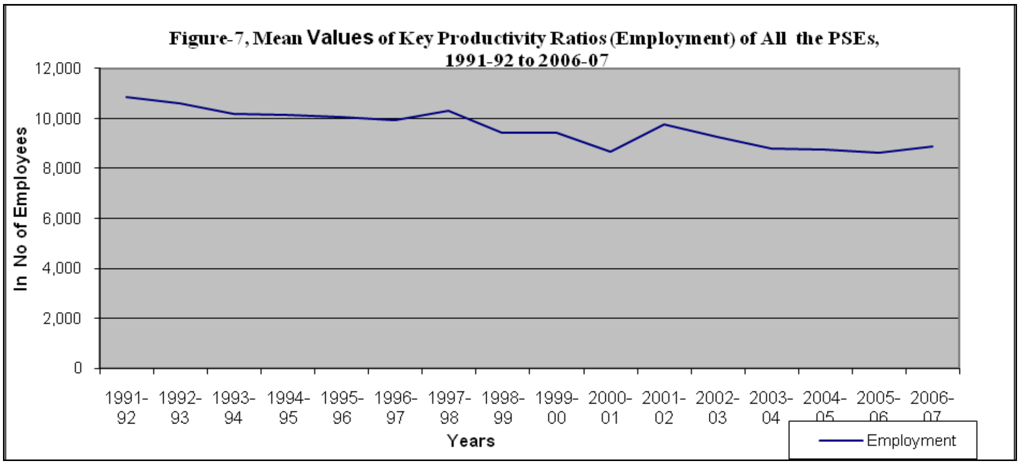
Paired Sample T Test

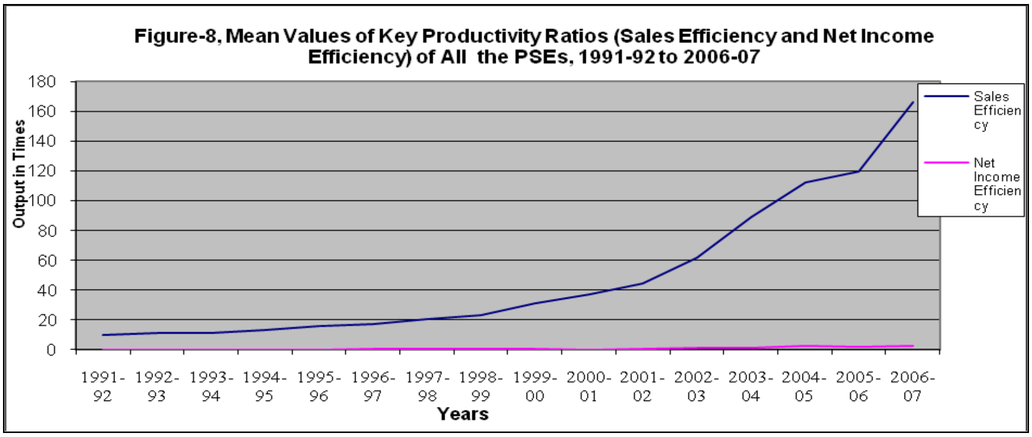
Ratios	Paired mean difference						Significance (two tailed)		
	Phases 1&2	df	Phases 2&3	df	Phases 3&1	df	Phases 1&2	Phases 2&3	Phases 3&1
Employment	700.79	192	2306.37	190	3105.27	186	0.02*	0.00**	0.00**
Sales	-11.65	191	-67.85	186	-71.84	180	0.00**	0.00**	0.00**
NIE	-0.37	192	-0.73	179	-1.18	176	0.14	0.19	0.09

** signifies to significant difference at 1% level and * signifies to significant difference at 5% level.

Table-18: Median, Lower (Q1) and Upper Quartile (Q3) Values of Key Productivity Ratios of the Sample PSEs, 1991-92 to 2006-07

Ratios	Median			Q1			Q3		
	Phase	Phase	Phase	Phase	Phase	Phase	Phase	Phase	Phase
Employment	2569	2435	1456	585	531	226	9943	8002	4617
Sales	3.14	5.01	9.92	1.09	1.84	2.64	9.78	15.64	37.40
NIE	0.03	0.01	0.23	-0.57	-1.23	-2.67	0.77	1.03	3.91





Frequency distribution pertaining to sales efficiency ratio (Annexure A.16) is more revealing on two aspects. First, steady decrease has been noted in the percentage of PSEs having sales efficiency upto 3 per cent over a period of time (i.e., decreases from 53 per cent to 14 per cent). Secondly, the percentage of enterprises having sales efficiency above 5 per cent has increased from the year 2001. As far as NIE is concerned (Annexure A.17), it has shown a deteriorating trend in one-third to one-half of the public organizations. From the above analysis, it is reasonable to infer that an improvement in sales efficiency (SE) has taken place during the period of the study. This improvement is attributed to increase in net sales and reduction in the employment over a period of time; the deterioration in NIE may primarily be attributed to higher cost of production and fixed cost interest which these organizations have to bear even if running in losses.

Summary of Results and Main Findings

Summary of Results

This section summarizes results of paired test (Table 19) of all the parameters dealt in this paper. Broadly, significant difference has been observed mainly in productivity, inventory holding and debtor's collection period in large number of cases as per paired t test; minor difference in the parameters of profitability has also been observed mainly in phases one and two and phases two and three.

Table-19: Summary of Results Based on Paired Sample T Test Pertaining to Financial Performance of the Sample PSEs, 1991-92 to 2006-07

Ratios	Phases 1&2	Phases 2&3	Phases 3&1
RONW		**	**
ROCE	**		
ROTA	**	*	
OPM	*		
NPM			
TATR			
FATR			
CATR			
□□□□ DCP	*	**	
RMIHP		**	**
WIPIHP		**	**
FGIHP	**	**	**
TD/TE			
CR			
ATR			
Sales Efficiency	**	**	**
Net Income Efficiency			
Employment	*	**	**

** and * signify to significant difference at 1% and 5% levels respectively..

Main Findings

The following are major findings of the study, based on analysis carried out in this paper:

i. Liberalization and economic reforms have yielded positive impact on the performance of the sample PSEs in India in majority of the ratios over a period of time. The notable improvement has been recorded in the select profitability parameters of the sample PSEs during phase three (2001-02 to 2006-07) *vis-à-vis* earlier two phases (1991-92 to 1995-96 and 1996-97 to 2000-01). Productivity of capital has depicted an impressive improvement over the phases; it is primarily due to overall reduction in workforce and increase in net-sales over the period of time. The questionnaire survey also reports satisfying compounded annual growth rate in their net-profits during the period related to phase three.

ii. Based on responding PSEs (to the questionnaire survey), macro-economic factors, stable tenure and its completion by top management executives, focused/ participative decision-making approach have been cited as the major factors contributing to the better performance of these PSEs.

iii. However, performance has not been observed equally satisfactory in respect of efficiency ratios. For instance, there is under-utilization of existing resources as assets utilization (measured in terms of total assets turnover ratio (TATR) and current assets turnover ratios (CATR)) is far from satisfactory and has followed a declining trend over the phases. It is fixed assets turnover ratio (FATR) only which seems to be satisfactory in majority of the PSEs. The aforesaid low CATR is due to high raw materials inventory holding period (RMIHP, nearly six months) and longer debtor collection period (DCP, nearly three months) for the entire period of the study. However, it is gratifying to note satisfying holding period in the case of work-in-process and finished goods. Survey findings attribute this decrease to the usage of inventory in tune with production requirement and better means of communication.

iv. In the category of current assets, notable decrease has been recorded in the inventory holding period and debtor collection period of PSEs over the phases. Survey findings confirm that the decrease in IHP is primarily due to the usage of inventories on the basis of production requirement.

v. As far as financing pattern of PSEs is concerned, though a declining trend has been noted for the use of debt, it still continues to be a major source of finance for the sample PSEs covered in the study. Liquidity ratios have been satisfactory for the PSEs during the period under reference.

Annexure A.1: Frequency Distribution Pertaining to Return on Net-Worth (RONW) of all the PSEs, 1991-92 to 2006-07

(Figures are in Percentages)

RON	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
>	.8	2.3	4.6	3.1	4.0	6.1	6.3	7.9	5.6	5.7	6.5	4.2	5.8	2.5	.8	3.3
-75	4.7	5.3	4.6	6.3	3.2	2.3	5.5	1.6	3.2	5.7	4.9	5.0	.8	.8		2.5
-30	14.	13.	18.	14.	11.	16.	8.6	13.	13.	11.	9.8	13.	9.1	5.1	5.0	4.1
0 to	51.	51.	48.	46.	46.	43.	47.	49.	46.	48.	46.	38.	35.	49.	42.	36.
15 to	22.	19.	19.	25.	28.	23.	20.	19.	22.	24.	24.	24.	28.	20.	32.	29.
30 to	.8	3.8	2.3	2.3	3.2	3.1	7.0	5.5	4.8	4.1	2.4	7.6	11.	15.	10.	16.
45 to	1.6	.8	2.3	.8	.8		.8	1.6			3.3	2.5	3.3	1.7	5.9	2.5
60 to	.8	.8		.8		.8	.8	.8	1.6	.8		3.4	2.5	3.4	2.5	1.6
75 to	.8	1.5			.8	.8	1.6		.8		.8			.8		
Abov	3.1	.8		.8	1.6	3.1	1.6		1.6		1.6	.8	2.5	.8	.8	3.3

Annexure A.2: Frequency Distribution Pertaining to Return on Capital Employed (ROCE) of all the PSEs, 1991-92 to 2006-07

(Figures are in Percentages)

ROC	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
>tha	4.2	5.9	6.3	5.8	4.7	8.8	9.3	6.1	6.2	6.9	9.3	8.4	10.	7.1	2.7	5.6
-75	4.2	5.9	3.2	3.2	4.0	7.0	6.4	8.0	9.3	6.3	7.5	4.5	4.4	5.2	7.5	5.6
-35	26.	27.	29.	29.	28.	25.	27.	36.	29.	34.	35.	35.	25.	23.	24.	23.
0 to	42.	40.	38.	40.	37.	31.	32.	27.	34.	29.	23.	23.	27.	29.	28.	28.
15to	15.	12.	15.	14.	13.	14.	14.	14.	12.	15.	14.	15.	15.	17.	17.	19.
30 to	3.6	5.3	4.5	3.9	7.9	7.0	5.2	4.9	3.7	5.0	5.6	7.7	10.	8.4	8.8	8.5
45 to	1.2	.6	.6	1.9	.7	2.3	1.7	2.5	1.9	3.1	.6	1.9	3.8	3.2	6.1	2.8
60 to	.6				.7	1.2	.6	.6				1.3	.6	3.2	2.0	1.4
Abo	1.8	1.8	.6	.6	2.7	2.4	2.3		2.5		3.1	1.9	2.5	1.9	2.1	4.9

Annexure A.3: Frequency Distribution Pertaining to Return on Total Assets (ROTA) of all the PSEs, 1991-92 to 2006-07

(Figures are in Percentages)

ROT	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
>tha	.5		2.1	2.1	3.1	3.0	5.1	5.6	6.6	6.4	2.9	6.0	4.5	2.1	3.2	4.7
-100	.5	3.6	4.1	4.1	4.6	5.1	4.6	3.6	2.5	4.9	6.7	3.5	1.5	5.2	2.7	5.9
-50	6.9	4.7	4.7	5.7	6.2	5.6	5.1	8.1	8.1	8.8	9.6	8.5	5.0	6.8	4.8	2.4
-25	23.	21.	23.	21.	20.	20.	20.	19.	23.	20.	22.	25.	18.	19.	13.	13.
0 to	57.	58.	55.	57.	54.	49.	48.	50.	48.	49.	41.	37.	43.	49.	51.	49.
15 to	5.8	7.8	7.3	7.3	6.2	9.6	9.6	8.1	6.1	6.9	12.	11.	13.	6.3	15.	12.
25 to	2.6	1.6	2.1	1.6	2.6	3.6	5.1	3.6	3.6	2.5	2.4	4.0	6.0	6.8	4.8	5.9
35 to	2.1	.5	.5	.5	2.6	1.0	.5			1.0	1.9	1.0	2.5	2.6	1.6	1.8
Abo		1.0			.5	1.5	1.5	1.0	1.0		1.0	2.0	6.0	2.1	3.1	3.6

Annexure A.4: Frequency Distribution Pertaining to Operating Profit Margin (OPM) of all the PSEs, 1991-92 to 2006-07

(Figures are in Percentages)

OPM	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
>	4.3	3.3	8.0	10.	9.5	11.	10.	11.	10.	14.	13.	9.7	7.6	8.4	5.0	6.3
-75	6.5	8.0	5.3	6.9	8.5	4.7	5.8	5.8	8.6	5.2	4.1	8.6	6.0	4.5	4.6	2.5
-35	21.	18.	20.	15.	14.	16.	17.	18.	19.	18.	20.	21.	10.	16.	8.7	11.
0 to	28.	29.	29.	29.	29.	28.	26.	31.	28.	31.	23.	22.	31.	33.	30.	29.
10 to	26.	25.	22.	26.	20.	18.	20.	16.	16.	15.	17.	21.	18.	16.	23.	19.
25 to	8.6	8.5	9.0	5.3	10.	9.9	12.	8.5	5.3	7.8	8.1	4.8	8.2	5.6	11.	12.
40 to	3.2	2.1	2.1	4.8	5.8	6.8	3.1	5.3	5.9	3.6	4.6	5.4	6.6	7.8	7.5	7.0
60 to	1.1	1.1	1.6	1.1	1.1	1.6	1.0	1.1		1.0	1.0	2.7	2.2	3.4	3.5	1.9
Abo	1.1	3.7	1.1	1.1	.5	2.1	2.6	2.1	4.3	3.1	7.0	3.8	9.8	3.9	5.2	8.9

Annexure A.5: Frequency Distribution Pertaining to Net Profit Margin (NPM) of all the PSEs, 1991-92 to 2006-07

(Figures are in Percentages)

NPM	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
>tha	6.5	8.6	12.	15.	13.	13.	11.	12.	12.	13.	16.	13.	9.0	12.	7.1	6.3
-100	7.0	7.5	5.9	4.3	5.3	3.7	5.9	5.5	4.4	5.4	4.7	6.6	7.3	4.0	6.5	3.8
-50	4.9	2.7	5.3	3.2	4.3	2.1	4.8	4.4	5.5	4.3	5.2	6.6	4.5	2.3	1.2	.6
-35	23.	22.	23.	22.	19.	23.	18.	20.	22.	22.	20.	19.	12.	14.	8.9	11.
0 to	40.	39.	35.	35.	34.	30.	34.	38.	38.	34.	29.	29.	34.	37.	41.	36.
10 to	12.	13.	9.0	15.	17.	18.	17.	11.	8.8	11.	13.	14.	14.	14.	19.	21.
25 to	3.2	2.7	5.9	3.2	5.3	3.2	5.3	5.5	5.5	7.0	6.8	6.6	7.3	10.	9.5	10.
40 to	1.6	1.6	1.1	.5	.5	3.2		.5	.6		.5	1.6	1.1	1.7	1.8	1.9
50 to		1.1	.5	.5	.5	.5	1.1	1.1	1.1	.5	.5	1.1	2.2	1.2	1.2	1.9
Abo	.5	.5	1.1			1.6	1.1	1.1	1.1	1.6	2.0	1.1	6.7	1.7	3.6	5.1

Annexure A.6: Frequency Distribution Pertaining to Total Assets Turnover Ratio (TATR) of all the PSEs, 1991-92 to 2006-07

(Figures are in Percentages)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
0to 0.5	34.	36.	35.	40.	36.	34.	36.	35.	35.	37.	41.	44.	41.	42.	41.	40.
0.5 to 1.0	40.	38.	41.	35.	37.	40.	37.	40.	39.	36.	37.	34.	34.	30.	33.	30.
1.0 to 2.0	19.	19.	16.	19.	18.	15.	20.	16.	19.	18.	13.	14.	16.	20.	16.	21.
2.0 to 3.0	3.2	3.1	3.6	2.6	4.6	6.1	2.1	2.0	1.5	3.4	2.9	2.4	4.5	3.5	4.2	2.8
3.0 to 4.0	1.6	1.5	1.6	1.0	2.1	2.0	1.0	2.6	2.0	2.0	2.4	1.9	2.5	2.5	2.1	2.2
4.0 to 5.0		.5	.5	.5	1.0	1.0	1.0	1.5	1.0	1.0	.5	1.5	.5	.5	.5	1.1
Above 5.0	1.1	.5				.5	1.5	1.0	1.5	1.0	1.4	1.0	.5	1.0	1.0	1.7

Annexure A.7: Frequency Distribution Pertaining to Fixed Assets Turnover Ratio (FATR) of all the PSEs, 1991-92 to 2006-07

(Figures are in Percentages)

FATR(Times)	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
0 to 1.0	20.7	21.9	20.8	23.4	22.7	19.9	23.5	22.4	22.8	21.1	24.9	21.8	22.9	21.6	21.1	23.0
1.0 to 2.0	16.5	16.7	16.7	18.2	17.5	18.9	14.3	20.4	18.8	18.6	19.6	19.3	21.4	14.4	11.1	9.0
2.0 to 4.0	20.2	21.9	24.5	20.3	20.6	17.3	21.4	17.9	18.3	21.1	19.6	19.8	17.4	23.7	24.7	22.5
4.0 to 6.0	13.3	11.5	13.5	10.4	10.3	9.7	7.7	10.2	10.7	10.8	9.6	8.9	10.0	7.7	8.9	11.2
6.0 to 8.0	6.9	7.8	7.8	8.9	5.7	10.2	12.8	9.2	6.6	6.9	4.8	6.9	5.5	5.2	7.9	7.3
8.0 to 10.0	4.8	4.2	2.1	3.6	7.2	6.6	3.6	3.6	4.6	2.0	4.3	3.5	4.0	4.6	4.2	5.1
10.0 to	3.7	2.6	1.0	2.6	4.1	3.1	4.1	2.6	4.1	4.4	3.3	3.0	3.0	5.7	2.1	2.2
12.0 to	1.1	1.6	2.1	2.1	2.6	2.6	1.0	1.5	2.0	2.0	2.4	3.0	3.0	2.6	2.1	2.8
Above 14.0	12.8	12.0	11.5	10.4	9.3	11.7	11.7	12.2	12.2	13.2	11.5	13.9	12.9	14.4	17.9	16.9

Annexure A.8: Frequency Distribution Pertaining to Current Assets Turnover Ratio (CATR) of all PSEs, 1991-92 to 2006-07

(Figures are in Percentages)

CATR(Times)	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
0 to 0.5	17.1	17.5	16.8	18.4	21.2	20.4	20.4	23.0	21.1	23.4	24.9	26.3	25.0	23.7	24.0	25.7
0.5 to 1.0	25.1	25.9	31.6	30.0	25.4	30.6	25.5	26.5	25.3	25.4	29.8	31.3	30.6	30.0	30.1	28.7
1.0 to 2.0	39.6	38.1	35.8	32.6	32.6	28.1	33.7	33.2	35.6	33.8	26.3	20.2	23.5	23.2	28.4	26.9
2.0 to 3.0	12.8	11.6	10.5	12.1	11.9	12.2	12.8	10.2	10.3	9.0	11.7	10.1	10.2	12.1	7.7	9.9
3.0 to 5.0	2.1	4.8	3.2	5.3	7.3	7.1	4.6	4.1	3.6	5.5	4.4	7.6	8.7	7.9	6.6	3.5
5.0 to 6.0	1.1	1.6	1.1	1.1	.5		.5	.5	1.0	.5	1.5	2.0	1.0	1.1	1.1	2.3
6.0 to 7.0	.5		.5		.5				1.5	1.0		1.0		1.1	1.1	
7.0 to 9.0	1.1					1.0	1.0	1.5	.5	.5		.5	.5			2.3
Above 9.0	.5	.5	.5	.5	.5	.5	1.5	1.0	1.0	1.0	1.5	1.0	.5	1.1	1.1	.6

Annexure A.9: Frequency Distribution Pertaining to Raw-Material Inventory Holding Period (RMIHP) of all the PSEs, 1991-92 to 2006-07

(Figures are in Percentages)

RMIHP (in days)	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
0 to 60	18.9	19.9	22.6	18.5	18.9	20.2	18.3	15.2	16.9	22.4	21.3	22.6	34.1	34.8	32.1	36.5
60 to 120	27.7	24.2	17.6	24.1	25.6	24.4	22.5	23.6	25.3	20.0	19.5	21.3	23.8	25.6	23.9	24.3
120 to 180	11.9	16.1	17.0	13.0	13.4	13.7	14.8	15.8	16.3	13.5	14.8	14.6	9.8	11.0	12.6	14.2
180 to 270	17.6	15.5	13.8	15.4	12.2	13.7	14.2	11.5	9.6	10.0	11.2	10.4	9.1	8.5	8.8	8.1
270 to 360	5.0	6.8	10.7	7.4	11.6	8.3	5.9	11.5	7.2	10.0	8.3	9.1	5.5	4.9	6.9	2.7
360 to 450	7.5	4.3	5.7	3.7	3.0	3.0	4.7	1.8	5.4	5.9	4.7	3.0	4.3	3.0	1.3	1.4
7450 to	4.4	5.6	6.3	6.2	6.1	8.9	7.7	6.7	6.6	5.3	7.1	7.9	4.9	4.3	5.0	2.7
above 720	6.9	7.5	6.3	11.7	9.1	7.7	11.8	13.9	12.7	12.9	13.0	11.0	8.5	7.9	9.4	10.1

Annexure A.10: Frequency Distribution Pertaining to Work-in-Progress Inventory Holding Period (WIPIHP) of all the PSEs, 1991-92 to 2006-07

(Figures are Percentages)

WIPIHP (in days)	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
0 to	77.	72.	73.	74.	76.	78.	79.	81.	81.	80.	83.	82.	80.	84.	83.	31.
30 to	11.	13.	13.	12.	12.	11.	12.	10.	11.	10.	9.2	10.	11.	8.5	10.	13.
60 to	4.8	5.7	4.7	5.7	4.6	2.6	3.1	2.6	2.5	3.4	2.9	3.0	3.1	3.2	1.1	15.
90 to	2.1	2.6	3.1	2.1	1.5	1.5	1.0	.5	1.5	1.5	.5	.5	1.6	1.1	1.6	13.
120 to	1.6	2.1	2.6	1.6	1.0	1.5	1.0	1.5		1.0	1.0	1.5	1.0	.5	1.1	8.5
180 to	1.1	1.0	.5	1.0	.5	.5	1.0	1.0	.5		.5					2.4
270 to		.5			.5	.5	1.0	1.5	1.0		.5	.5	.5			3.7
365 to	.5	.5				1.0				.5	1.0	.5		.5	.5	0.6
above	1.6	1.6	3.1	2.6	2.6	2.1	1.0	1.0	2.0	2.0	1.0	1.5	1.6	1.6	1.6	4.3

Annexure A.11: Frequency Distribution Pertaining to Finished Goods Inventory Holding Period (FGIHP) of all the PSEs, 1991-92 to 2006-07

(Figures are in Percentages)

FGIHP (in days)	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
0 to 30	68.8	65.4	67.2	65.6	71.5	76.4	80.5	81.6	82.3	80.0	80.5	84.6	83.0	84.1	85.5	87.0
30 to 60	16.4	20.9	16.1	20.8	17.1	13.3	11.8	12.2	13.6	14.5	15.1	10.9	11.3	12.2	10.6	9.0
60 to 90	7.4	5.8	8.9	7.3	5.2	5.6	3.6	4.1	3.0	2.5	2.9	2.0	1.5	1.1	.6	1.1
90 to 120	4.2	3.7	4.2	3.1	4.1	1.0	2.6	1.0	1.0	1.0	.5	2.0	2.6	1.1	1.1	1.1
120 to 180	2.6	3.1	3.1	2.1	1.0	2.1	1.0	1.0		1.0	.5	.5	1.0	1.1	1.1	.6
180 to 270		.5	.5	1.0	.5	.5	.5			1.0	.5		.5	.5	1.1	1.1
270 to 365					.5	.5										
Above	.5	.5				.5										

Annexure A.12: Frequency Distribution Pertaining to Debtor Collection Period (DCP) of all the PSEs, 1991-92 to 2006-07

(Figures are in Percentages)

DCP (in days)	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
0 to 30	22.7	20.3	18.5	17.4	19.7	15.5	18.0	17.0	20.3	20.7	18.6	22.4	22.4	27.7	30.7	31.1
30 to 60	21.6	18.7	19.0	22.6	22.8	22.2	17.0	19.1	16.1	16.7	16.2	18.4	21.4	20.7	16.5	13.4
60 to 75	5.4	8.0	10.6	8.4	7.8	13.4	8.8	6.2	6.8	7.1	8.3	7.7	7.8	6.5	10.2	8.5
75 to 90	7.0	8.6	2.6	4.2	3.6	4.6	7.2	12.4	7.8	8.1	9.8	7.7	5.2	4.3	4.5	6.7
90 to 120	10.8	8.6	11.6	8.4	9.3	8.8	11.9	6.7	10.9	12.1	10.8	7.7	8.9	11.4	12.5	13.4
120 to 150	9.2	13.4	13.2	12.6	9.8	6.2	11.3	9.8	8.9	7.1	8.3	6.6	8.3	7.1	9.1	8.5
150 to 180	8.1	4.3	5.8	7.9	8.8	9.3	6.2	5.7	10.4	4.0	5.4	8.7	6.3	6.0	5.1	7.3
180 to 270	10.3	12.8	12.7	10.5	7.8	11.3	8.8	12.9	9.9	14.6	12.3	11.2	8.9	8.7	5.1	2.4
270 to 365	1.6	1.1	2.6	4.2	4.7	2.6	4.6	4.1	2.6	3.5	4.4	4.6	3.6	1.1	1.7	3.7
365 to 450	1.6	1.6	1.6	0.5	2.6	2.6	2.6	2.1	2.1	2.5	1.5	1.5	2.1	0.5	1.1	0.6
above 450	1.6	2.7	1.6	3.2	3.1	3.6	3.6	4.1	4.2	3.5	4.4	3.6	5.7	6.0	3.4	4.3

Annexure A.13: Frequency Distribution Pertaining to Total Debt to Total Equity (TD/TE) of all the PSEs, 1991-92 to 2006-07

(Figures are in Percentages)

TD/TE (in times)	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
0 to 0.5	8.4	9.8	8.4	11.0	10.2	11.7	11.6	13.2	15.1	16.7	14.6	16.8	24.8	22.2	22.3	19.0
0.5 to 1.0	18.3	16.5	17.6	18.1	18.0	15.6	17.8	17.1	14.3	17.5	17.1	15.1	19.7	18.8	18.2	22.3
1.0 to 2.0	22.9	26.3	22.1	22.0	23.4	26.6	28.7	28.7	31.1	28.3	27.6	28.6	17.1	21.4	22.3	17.4
2.0 to 3.0	14.5	18.8	16.0	17.3	14.8	18.8	10.9	10.9	9.2	13.3	13.8	11.8	9.4	9.4	9.9	13.2
3.0 to 4.0	9.9	3.8	7.6	7.9	9.4	6.3	8.5	7.0	7.6	2.5	4.1	2.5	6.0	6.0	7.4	8.3
4.0 to 5.0	6.9	6.8	10.7	6.3	7.0	2.3	2.3	2.3	5.0	5.8	2.4	4.2	5.1	4.3	3.3	5.0
5.0 to 6.0	3.1	3.8	3.1	1.6	2.3	1.6	2.3	1.6	.8	.8	3.3	.8	1.7	1.7	3.3	2.5
6.0 to 7.0	.8	.8	3.8	4.7	2.3	4.7	3.1	1.6	1.7	3.3	4.9	3.4		2.6	1.7	.8
7.0 to 8.0	3.1	1.5	2.3		3.9	.8	2.3		.8	.8	.8		.9	1.7	1.7	1.7
Above 8.0	12.2	12.0	8.4	11.0	8.6	11.7	12.4	17.8	14.3	10.8	11.4	16.8	15.4	12.0	9.9	9.9

Annexure A.14: Frequency Distribution Pertaining to Current Ratio (CR) of all the PSEs, 1991-92 to 2006-07

(Figures are in Percentages)

CR (in times)	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
0 to 0.5	7.5	13.1	14.5	17.1	19.0	9.1	11.2	12.7	14.7	16.2	21.0	19.9	15.0	17.6	15.9	13.1
0.5 to 1.0	16.1	16.2	19.2	17.1	17.4	14.7	17.8	16.8	20.3	14.6	15.5	17.4	20.7	15.0	15.9	11.9
1.0 to 1.5	18.8	19.4	19.2	24.4	21.0	26.4	21.3	23.4	21.8	23.2	23.5	23.9	27.5	29.0	29.6	28.4
1.5 to 2.0	24.2	19.4	14.5	13.5	17.4	14.2	19.3	16.8	16.2	18.2	14.0	12.9	14.5	16.6	12.7	19.9
2.0 to 2.5	14.5	14.7	17.6	11.4	8.2	13.7	10.7	10.7	9.6	11.6	8.5	6.5	4.1	5.7	5.8	5.7
2.5 to 3.5	14.0	10.5	6.7	9.8	10.8	12.2	10.7	10.7	9.6	8.1	9.5	9.5	8.3	6.7	9.5	10.2
3.5 to 4.5	2.2	3.1	3.6	4.1	4.1	4.1	1.5	3.0	3.0	2.0	4.0	5.0	3.6	3.6	3.2	1.7
4.5 to 5.5	0.5	1.6	0.5	0.5		2.0	3.0	2.0	1.0	2.0	1.5	2.5	3.1	1.0	2.6	4.0
5.5 to 6.5	1.1	0.5	0.5	0.5	2.1	1.0	1.5	1.0	1.5	2.0	1.0	0.5	0.5	2.1		
Above 6.5	1.1	1.6	3.6	1.6		2.5	3.0	3.0	2.0	2.0	1.5	2.0	2.6	2.6	4.8	5.1

Annexure A.15: Frequency Distribution Pertaining to Acid Test Ratio (ATR) of all the PSEs, 1991-92 to 2006-07

(Figures are in Percentages)

ATR (in times)	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
0 to 0.5	39.6	41.8	44.5	42.4	41.2	37.1	35.2	37.6	42.1	42.6	45.2	40.5	40.3	39.3	34.3	26.9
0.5 to 1.0	29.9	32.8	24.6	29.3	29.9	29.9	29.1	27.9	25.4	25.1	25.1	27.5	27.2	27.7	31.5	33.7
1.0 to 1.5	18.2	13.2	15.7	16.8	14.4	16.8	20.4	17.8	16.8	13.8	13.6	17.0	15.7	16.2	13.8	17.7
1.5 to 2.0	7.0	5.8	7.9	5.8	7.2	6.1	6.1	9.1	8.1	11.3	6.0	3.0	6.3	6.3	8.3	9.1
2.0 to 2.5	1.6	2.6	3.1	1.0	3.1	3.6	2.0	2.0	3.0	3.1	5.0	4.5	2.6	2.6	3.3	2.3
2.5 to 3.0	1.6		1.0	1.6	2.1	4.1	3.1	2.0	2.0	.5	1.0	2.0	1.0	1.6	1.1	1.7
3.0 to 3.5	1.1	1.1	1.0	2.1		.5	1.0	.5	.5	.5	1.0	2.5	2.1	1.0	1.7	.6
3.5 to 4.0	1.1	1.1	.5		1.0			.5		1.0	1.0	1.0	1.0	.5	1.1	2.3
4.0 to 5.0		.5				1.0	1.5		1.0		1.0	1.0	2.1	1.0	1.7	2.3
Above 5.0		1.1	1.6	1.0	1.0	1.0	1.5	2.5	1.0	2.1	1.0	1.0	1.6	3.7	3.3	3.4

Annexure A.16: Frequency Distribution Pertaining to Sales Efficiency of all the PSEs, 1991-92 to 2006- 07

(Figures are in Percentages)

SE (in %)	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
0 to	52.	50.	48.	42.	40.	41.	35.	34.	34.	33.	29.	25.	20.	19.	19.	14.
3.0	17.	15.	14.	17.	14.	12.	15.	16.	13.	14.	15.	11.	12.	8.9	8.0	6.9
5.0	10.	13.	14.	15.	18.	18.	19.	18.	18.	16.	15.	18.	19.	20.	13.	15.
10.0	3.7	5.8	6.8	7.3	5.2	4.6	7.1	6.1	7.6	6.8	9.7	8.0	7.6	8.4	11.	14.
15.0	5.8	2.6	4.2	3.1	5.7	5.1	4.1	5.1	4.1	5.8	6.8	5.0	8.1	7.9	9.6	4.6
20.0		2.1	1.6	2.6	2.6	3.0	2.5	3.0	3.0	2.4	1.9	4.0	4.0	2.1	3.2	4.0
25.0	1.6	1.6	.5	1.6	1.5	2.0	1.5	2.0	2.0	1.5	.5	3.0	2.5	3.7	4.8	4.6
30.0	.5	.5	2.6	.5	2.1	1.0	2.0	.5	1.0	1.5	1.4	2.5	2.5	3.1	3.2	6.3
35.0	2.6	2.1	1.0	2.1	2.1	3.6	1.5	2.5	3.6	4.4	3.9	4.5	4.5	6.3	3.7	7.4
50.0	2.6	2.6	3.6	2.6	1.5	1.0	1.5	2.5	2.0	3.4	5.3	3.0	4.0	4.2	6.4	4.6
Abov	2.6	3.1	3.1	4.7	5.7	7.1	9.1	8.6	10.	11.	10.	13.	14.	15.	15.	17.

Annexure A.17: Frequency Distribution Pertaining to Net Income Efficiency (NIE) of all the PSEs, 1991-92 to 2006-07

(Figures are in Percentages)

NIE (in%)	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Less	43.	44.	47.	47.	45.	46.	43.	46.	49.	50.	51.	50.	41.	39.	31.	30.
0 to	52.	50.	45.	44.	43.	43.	45.	42.	38.	34.	32.	28.	34.	36.	42.	39.
3.0	2.1	3.1	2.6	4.7	6.7	4.6	4.1	4.1	2.6	4.4	3.4	4.5	3.1	3.2	6.6	6.5
5.0	1.1	.5	2.6	3.1	2.1	4.1	2.6	2.0	2.0	2.5	3.9	4.0	4.1	5.8	4.9	6.5
7.5			.5			.5	2.6	1.0	3.6	3.4	3.4	3.0	3.6	2.1	1.6	2.4
10.0	.5	1.0	1.0		1.0		.5	3.0	3.1	2.5	3.4	4.5	7.7	5.8	6.0	8.3
20.0		.5		.5	.5	1.0	.5	.5	1.0	1.0	.5	2.5	3.6	2.1	3.8	2.4
30.0							.5	.5		1.0	1.5	.5	.5	2.6	1.1	1.8
Abo						.5		.5			.5	1.5	1.5	2.2	2.2	2.4

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