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Non-tariff measures a trade barrier for developing countries' agricultural processed products exports

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Abstract

The paper analyses the trade barriers that thwart diversification efforts of developing countries into exports of value-added agricultural processed products. It examines the extent to which non-tariff measures act as market access barriers that constrain agricultural processed products exports from developing countries. The analysis shows that the prevalence of non-tariff measures (including domestic non-tariff measures) limit the ability of developing countries to increase their agricultural processed exports. This has important policy implications in terms of the emphasis that trade negotiators and policy planners should place on addressing non-tariff measures both in the domestic and foreign markets.

KEYWORDS: Agricultural processed products exports, developing countries, non-tariff measures

Introduction

Public enterprises that have traditionally been oriented towards domestic market are increasingly competing with private firms in the global market place. In some sectors hey are facing problems due to real or imagined government subsidy. Moreover in many developing countries public enterprises play an important role in supporting the government negotiators trying to dismantle trade barriers.

The agricultural sector is relatively more important for the economy of many developing countries (hereafter DCs). It remains the largest source of employment, GDP, exports and foreign exchange earnings in most DCs. It usually accounts for 50-70 percent of the national GDP in DCs. According to the Food and Agriculture organisation of the United Nations (FAO), DCs are the major producers of agricultural products – in general, they account for more than two-third of total world agricultural production and the remaining coming from developed countries. Despite this, developed countries account for a much higher share of the total world agricultural exports, with about two-thirds of total exports coming from developed countries and the remaining from DCs (FAOSTAT, 2019).

A reason for DCs' low share in total world agricultural exports is their low share in world exports of agricultural processed (final) products which normally have a higher value-added than primary agricultural products. Table 1 shows that in 2010-2014 agricultural processed products exports averaged 46 percent of total world agricultural exports and the share of DCs in total agricultural processed products exports was only 39 percent compared to 61 percent for developed countries.

Table 1: Exports of processed (final) agricultural products, 2010–14

	Total world exports of agricultural final products		Composition of world exports of agricultural final products (USD billion)		Share in the world exports of agricultural final products (%)	
Year	Value (US$ billion)	Share in total agricultural exports (%)	Developing countries	Developed countries	Developing countries	Developed countries
2010	605	46	228	377	38	62
2011	731	46	284	446	39	61
2012	732	46	292	440	40	60
2013	776	47	309	467	40	60
2014	784	47	309	475	39	61

Note: See Appendix 1 for classification for separating agricultural processed products.

Table 1 highlights that DCs' are lagging in exports of agricultural processed products. For example, the share of developed countries in world exports of roasted coffee is around 93 percent even though an almost negligible amount of coffee is produced in developed countries. For tea, DCs are the main producers and exporters of bulk tea. This is an area where DCs have increased their share of processed exports over the years – they export 71 percent of packaged tea in contrast to 29 percent from developed countries. In the case of cocoa, the share of DCs in world exports of cocoa beans is around 90 percent, while the share in world exports of cocoa paste, cocoa powder is only 46 and 33 percent respectively. When it comes to chocolates and other cocoa products, DCs share is only 17 percent. Similarly, developed countries have a higher share in world exports of manufactured tobacco (67 percent) and processed rubber (62 percent). In the case of sugar, developed countries produce relatively small amount of sugar, mostly beet sugar, but have a 33 percent share in export of refined sugar and 60 percent share in export of sugar confectionery. These examples suggest that although DCs continue to be the main producers of products such as coffee, tea, cocoa, tobacco, rubber and sugar, in primary form, while the bulk of the processing for manufacture of roasted or instant coffee, cocoa powder/paste, tobacco and rubber products, and refined sugar remains concentrated in more developed countries. The importance of encouraging DCs' diversification into higher value-added production has been long discussed in the literature and in international fora. The point that is made is that if DCs specialise in exports of agricultural primary products, they are deprived of the income advantages that global value chains enjoy, as well as of additional employment opportunities and growth in value-added industries. A question relevant from a policy perspective is: why have DCs failed to capture a larger share of world exports of agricultural processed products? The reasons for this can be many. The underlying factors that exercise significant negative effects include the business climate, lagging technology, limited production capacities and intrinsic supply-side constraints, all of which contribute to curtailing the ability of DCs to diversify into processed product exports. The supply-side constraints in DCs include the poor quality of infrastructure (roads, electricity, communications) and institutions (legal, financial, regulatory), information bottlenecks, inadequate access to finance and governance issues (Moïsé et al., 2013). Some of these constraints are more severe for processed products compared to agricultural primary products.

The terms 'non-tariff measure' (NTM) and 'non-tariff barrier' (NTB) are often used interchangeably but are quite different. The term NTM simply identifies the measure whereas the term NTB indicates that the measure is trade-restricting. The objective of this paper is to identify the extent to which NTMs constitute market access barriers that thwart diversification efforts of DCs into value-added agricultural processed exports. The analysis highlights that it is the NTMs in developed countries as well as in DCs' themselves that limit DCs' ability to diversify into processed agricultural exports. This has important policy implications in terms of the emphasis that trade negotiators and policy planners should place on addressing non-tariff measures both in the domestic and foreign markets.

NTMs in agriculture

While tariffs, quotas and subsidies on agricultural products have declined since the early 1990s as a result of successive rounds of global trade liberalisation and signing of preferential trade agreements, NTMs have increased in numbers and complexity reflecting not only trade-related measures but also changing commercial practices, consumer and health concerns, improved scientific knowledge, and advances in technology and communications. Both public and private standards are increasingly influencing the production and trade of agricultural goods, and attention is therefore being given to addressing unjustified measures that may offset the advances brought about by lower tariffs.

NTMs in agri-food markets are policy measures, other than ordinary customs tariffs, that can potentially have an economic effect on international trade in agricultural goods, changing quantities traded or prices or both (MAST 2008). Within this broad definition of Organisation for

Economic Co-operation and Development (OECD), three categories form the core of interventions commonly felt to be on the rise worldwide:

- *Sanitary and phytosanitary measures (SPS):* Regulations that protect human and animal health (sanitary measures) and plant health (phytosanitary measures) in order to ensure food safety for consumers and to avoid the introduction of diseases and pests through trade.
- *Technical barriers to trade (TBT):* Regulations and mandatory standards that target technical characteristics of products, such as process and product standards (include norms for size, quality and physical attributes of product), labelling and marketing standards, traceability and origin of material, and the related conformity assessment and certification.
- *Other technical measures:* Policies and requirements which somehow did not fit into the previous two categories but look quite similar to them for analytical purposes.

Typically, standards are used to address information problems, market failure externalities, or may be motivated by political considerations (for example, to satisfy demands of risk-averse and quality-conscious consumer behaviour in developed countries) or to promote economic, industrial and regional development as well as protect specified sectors from imports generally or from the dumping of cheaper imports. In the context of agri-food trade, they aim to ensure food safety, animal and plant health, but also extend to other quality and technical aspects of food products.

To the extent that NTMs address market failures, simply removing them may not always be optimal, even if trade volumes would increase, since their intended benefits would be sacrificed, for example those related to human health (SPS measures). Many technical measures may restrict trade but improve welfare through a reduction in negative externalities (e.g. through reduced risk of importing pests or diseases) or information asymmetries (e.g. through a label providing consumers with details on the product). It has been argued that standards and regulations can be perceived to act as a catalyst to upgrade DCs' processing industries production structures to make them compatible with international standards (Henson, 2006). In some instances NTMs can expand trade as they enhance demand for a good through better information about the good or by enhancing the good's characteristics and attractiveness for the consumer (Van Tongeren et al., 2009). Efficiency costs of NTMs are therefore much less evident than the welfare losses associated with tariffs and quantity measures that restrict trade. Analysis and policy must therefore respect these benefits, assess alternative ways to address the market failures, and assess NTMs on a case-by-case basis (Van Tongeren et al., 2010).

The most common types of NTMs in agricultural products are attributed to differences in technical and SPS standards between the exporting and importing country as well as diverging standards and specifications across different importing countries. In particular, these include specific measures to regulate product characteristics, marking, labelling, packaging, testing and SPS measures. Such measures constitute a trade barrier particularly if standards are designed and implemented, intentionally or otherwise, in a way that favours the production methods of a particular country or those of advanced countries. The literature shows a growing concern about certain regulations associated with environmental, national security and labour standards in developed-country markets. While these seem to be legitimate areas for regulation, bioterrorism rules, child labour clauses, and environment standards are mostly perceived in DCs as being more trade restrictive than necessary to achieve intended goals.

The European Commission funded project (2009 - 2011) 'Assessment of the impacts of non-tariff measures on the competitiveness of the EU and selected trade partners' (referred to as the NTM-Impact project) analyses data on NTMs for key agri-food products that are most commonly traded by the EU with selected nine countries. A key finding of the project is that trade is significantly reduced when importing countries have stricter and/or differing standards (SPS or TBT) than the exporting countries. For example, important differences among standards applied in different industrialised countries in areas such as aflatoxin content or pesticide residues can increase the compliance cost particularly for developing exporting countries. The findings suggest that, at least for some import standards, the harmonization of regulations will be trade-increasing (Orden et al., 2012).

An NTM often reported on agricultural products by DC manufacturers in exporting countries is compliance with the EU regulation on traceability, which entered into force in January 2005 and requires all exporters to identify the origin of products. This imposes an additional cost burden on DC exporters as the domestic regulations do not require traceability in the supply chain. Small and medium sized enterprises, which form the bulk of producers and processors in DCs, face particular challenges. Those companies often lack the internal capacity and the economies of scale to establish effective quality assurance and traceability systems (Giovannucci & Purcell, 2008). Thus, unless these sectors can make standard compliance cost effective and guarantee traceability for the buyers, many producers and processors will be increasingly marginalised and excluded from competitive markets both regionally and internationally with consequences for trade and economic growth.

From the above it emerges that not only are agricultural standards different and generally more stringent in developed countries compared to DCs, and at times more restrictive than those specified by the *Codex Alimentarius* (FAO, 2004), but also that they differ across developed countries. This adversely affects DCs' agricultural exports to developed countries, more so in the case of processed agricultural exports that require a greater degree of formal manufacturing and therefore higher effort and capabilities to fulfil standards. Therefore, the simplification and harmonisation of standards through international collaboration can be expected to promote DCs' agricultural processed exports.

In addition to agricultural standards set and implemented by government authorities, an increasing number of agricultural trade standards is set by private groups or firms (retailers and agri-food companies). These standards, at times called private voluntary standards (PVS), usually apply to such areas as quality, process management, packaging requirements, or social concerns. They mainly reflect specific commercial needs such as value chain management, or the need to reduce the importing firm's exposure to risk. They are often implemented faster and usually have a larger scope or require higher levels of performance than the mandatory public standards and, as they evolve more rapidly than government regulations, they can be more difficult to follow and implement. Although voluntary, they are becoming the basic *de facto* entry requirement for trade with many of the large-scale operators and leading production and distribution chains; so for agro-food exports both public and private requirements are important (OECD, 2013).

Although standards going beyond basic entry requirements can represent important opportunities for increased market share or price for many agricultural products, they can also entail significant challenges for developing country producers and exporters faced with capacity and resource constraints. The heterogeneity of these standards entails collecting and evaluating relevant information and data on the applicable requirements, a complex operation, for which DC producers and exporters may be poorly prepared. In contrast, developed country producers and exporters who are better equipped to meet the standards will be in a better position to exploit market opportunities. A related problem is the requirement for internationally accredited agencies to certify many standards. This requirement particularly increases total costs for DC exporters as many of these agencies are based in developed countries, and certificates usually have to be renewed every year.

Review of relevant NTM studies

It is a challenging task to identify incidences of NTMs and to measure the degrees of trade restrictiveness they cause as well as the consequential economic and welfare impacts. The main challenges are related to issues concerning lack of data, data collection and measurement. The lack of transparency concerning the scope and effects of NTMs makes it very difficult to quantify the coverage and extent of these measures. Moreover, the analysis of NTMs often requires some kind of matching up of data of different classification and sources which makes it problematic (Korinek et al,.2008). Nevertheless, a host of studies employ different analytical approaches to detect NTMs and quantify their impact on trade and economic welfare in general. Some studies are based on overviews and assessments or deductions of NTMs, while others use economic models such as gravity-type models, price-wedge models, simulation and primary data analysis to measure the extent of trade restrictiveness of NTMs. This section presents the findings of some studies on NTMs. Although these findings suffer from the data limitations mentioned above and do not explore potential impacts for processed agricultural products, they are presented because they do call attention to key points.

In general, the incidence of NTMs is higher on agriculture tariff lines than on manufactured products. Figure 1 shows the overall trade restrictiveness index (OTRI) based on the estimation of ad valorem equivalents of NTMs faced by exports for high, middle and low income countries. Large differences in the restrictiveness of NTMs are observed between agricultural and manufacturing products, with NTMs substantially adding to the level of restrictiveness faced by agricultural exports (OECD, 2013).

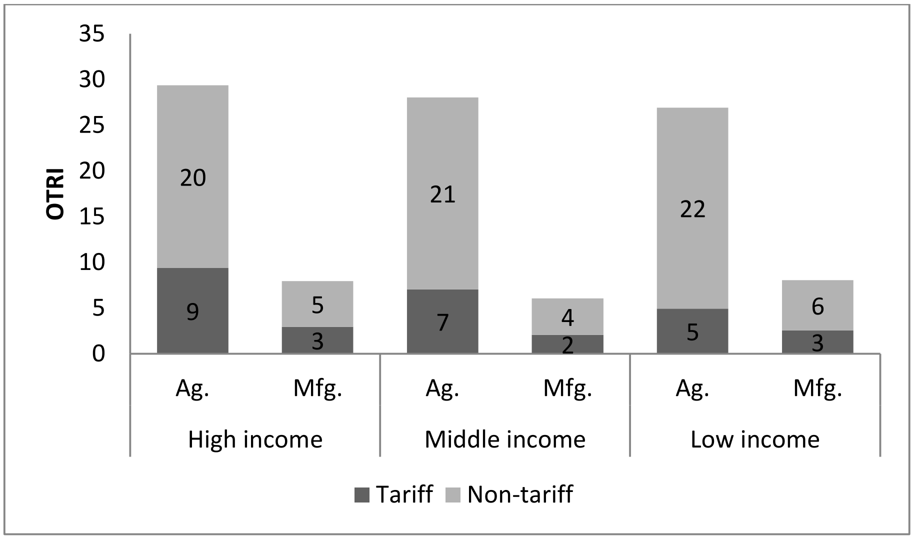

Figure 1. Overall level of trade restrictiveness faced by exports
Source: UNCTAD, 2015

Francois et al. (2011) use a global CGE model of the world economy to examine the impact of EU preferential trade agreements (PTAs) with its OECD and G20 trading partners. The PTAs are modelled as involving elimination of tariff barriers and a 50 percent reduction in estimated NTMs for industrial goods (excluding energy goods): processed foods, chemicals, metals and metal products, motor vehicles, machinery, other manufactures. Table 2 presents the estimated impact on GDP of these changes. Consistently, the impact of NTM reductions is greater (2 to 3 times) than tariff elimination. The finding highlights the increasing importance of NTMs and points towards a shift in emphasis in PTAs from tariffs to deeper modes of integration, as these are more likely to address the impact of NTMs on exporters.

Disdier and Marette (2010) analyse the impact of NTMs notified by importing countries to the WTO under the SPS and TBT agreements on bilateral/multilateral trade flows. They focus on OECD imports of agricultural and food industry products (690 products at HS 6-digit level) from 114 exporting countries (OECD and others) for the year 2004, excluding intra EU trade. Their results suggest that SPS and TBT measures have on the whole a negative impact on trade in agricultural products.

Table 2: Change in GDP, percent

	All PTAs together	Impact of tariffs	Impact of NTMs
Japan	0.80	0.21	0.59
Korea	2.29	0.79	1.50
Canada	0.34	0.02	0.32
USA	0.46	0.08	0.38
Argentina	0.99	0.19	0.80
Brazil	1.57	0.61	0.96
India	1.18	0.38	0.80
Indonesia	1.09	0.37	0.72
Thailand	1.39	0.33	1.06
France	0.73	0.18	0.55
Germany	1.01	0.27	0.75
UK	1.00	0.26	0.74

Source: Francois et al. (2011)

Within the agricultural sub-sectors they find the trade-impeding impact of SPS and TBTs is the most severe for cut flowers and for processed food like beverages. They also show that OECD exporters are not significantly affected by these measures in their exports to other OECD members. On the other hand, exports of developing and least developed countries to OECD countries are significantly reduced by these regulations. Their results also show that EU countries in general notify less SPS and TBTs compared to other OECD countries, but their measures are more trade-impeding (offering better protection) than the ones adopted by other OECD countries. Their results are robust to different econometric specifications.

Fontagné et al. (2005) collect data on 61 product groups, including agri-food products to analyse the stringency of the NTMs that countries may adopt. They focus on the measures covered under the WTOs Agreements on SPS and TBT. They find that the measures have a negative impact on agri-food trade but not on trade in other products. The measures significantly reduce DCs' exports to OECD countries, but do not affect trade between OECD members. Rather, OECD agri-food exporters tend to benefit from NTMs at the expense of exporters from DCs and LDCs. They also find that the negative trade effects are more prominent for pork meat, vegetables, wheat pastry as well as for a variety of processed agri-food products (e.g. chocolate, beverages).

Analysis of NTMs data and business survey

The UNCTAD TRAINS database records incidences of NTMs that are notified to the WTO as well as changes and new regulations with regards to the measures that apply to imports. The respective WTO notifications are documented by the type of measure (TRAINS category of technical measure) according to product (HS product codes) and notifying country from the year

1992. The TRAINS database relies on self-reporting by WTO member countries. The TRAINS database shows that the governments of OECD countries impose requirements on almost all agro-food products except for some unprocessed products. Amongst the NTMs notified the marking, labelling and packaging requirements are most frequently reported, followed by requirements for product characteristics, followed by testing, certification and conformity requirements. Although these requirements affect all agricultural products, they are likely to affect agricultural processed products even more or at the most equally. NTMs notified for agricultural products by OECD countries are in Table 3.

Table 3: NTMs notified for agricultural products by OECD countries

NTMs	Share (%)
Labelling, packaging & marking requirements	39
Product characteristics requirements	28
Testing, inspection and quarantine requirements	25
Technical regulations	5
Information requirements	3
Total	100

Note: Data excludes sensitive products
Source: UNCTAD TRAINS database

As part of a European Commission project (ECORYS, 2009) business surveys were conducted of EU firms exporting and importing goods within the EU and with the US and G20 firms. The firms were chosen (over 6000 firms) who had substantial trading interest (i.e., annual exports and imports valuing about 30 per cent of their turnover). The survey results (about 5000 firms) are used to attain NTM indexes for processed foods sector using the Anderson et al. (2009) method, the indexes in turn are used to compile the equivalent trade cost of NTMs. The logic or assumption is that the trade costs of NTM are because of differences in regulations and their implementation between trading countries. The common market of the EU has achieved harmonisation of regulations that are recognised by all EU countries and firms. Therefore it can be treated as a benchmark of the minimum that can be achieved in terms of reduction in NTM-related trade costs. The trade cost equivalents of NTMs are calculated from the gap between the NTM indexes for transactions of EU firms with other EU firms and those of EU firms with other OECD and G20 countries.

Table 4 shows estimates of NTMs trade costs for processed food for selected countries. The values show the net addition to the cost of delivery because of NTMs for cross-border consumers. For example, NTMs add an estimated 30 percent to the cost of delivery of processed foods to the EU from countries outside the EU, while that for the US is 50 percent. As shown in Table 4 NTMs for processed products are very high and thus important in obstructing trade. These products face tariffs as well, but these have come down over the years because of commitments for reduction in MFN tariffs under the WTOs Trade Rounds, in particular tariffs across most products have gone down substantially over the years for OECD countries. However, the same cannot be said for NTMs, which explains the need for greater attention to NTMs by countries and trade negotiators. Moreover, while tariffs are collected as government revenue, they do not result in substantial increases in the actual cost of production/delivery unlike NTMs which do result in increases in these costs. A range of studies use Computable General Equilibrium (CGE) modelling to simulate the potential impact if countries implement tariff reduction on an MFN basis. Although the results of these studies are based on assumptions such as price elasticities of demand, in general the simulation results from most of these studies show that a tariff reduction by 50 percent on an MFN basis can be expected to increase exports by around 15-20 percent. If we apply this result, for example to the United States, it can be expected that a 50 percent reduction in NTM trade costs will result in about 15 percent increase in processed food exports to the United States.

Table 4: Processed foods NTM trade costs (percent of import value)

Country	Trade costs
United States of America	50
European Union	30
Canada	23
Russia	65
China	45

Source: EU and OECD databases

The International Trade Centre initiated a series of surveys to document NTMs that exporters in developing countries perceive as problematic. Surveys have been conducted in more than 11,500 companies in 23 developing countries, covering all major exports. The survey findings show that the agro-food sector is particularly impacted by NTMs, particularly the highly perishable fresh food sector with the overall exporters' affectedness by NTM-related trade obstacles above 60 percent. The second most impacted sector is processed food, with 55 percent of exporters declaring being affected. For agricultural products in general, developed countries are perceived as comparatively more NTM-restrictive than other markets. Table 5 lists the main NTMs reported by companies in the agro-food sector, which shows the highest number relate to conformity assessment (such as rules of origin, traceability, testing, inspection and certification) followed by product-related requirements (such as labelling, packaging, technical and SPS) set by the importing country. Some firms commented that technical regulations and standards applied by certain developed countries are more stringent than those specified by relevant international bodies, and the justification for this is not explained.

Table 5: NTMs notified by processed food exporting firms

NTM type	% share
Customs & administrative procedures (including traceability & rules of origin)	21
Labelling & packaging requirements	10
Testing & certification arrangements	11
Other Technical regulations & standards	8
Sanitary & Phytosanitary measures	5

In summary, the findings from the NTMs data analysis and review of studies call attention to the following key points:

- The incidence of NTMs is higher on agriculture tariff lines than on manufactured products.
- Within agriculture, highly perishable fresh food products appear as most impacted by NTMs followed by processed food.
- NTMs add an estimated 30 percent to the cost of delivery of processed foods exported to the EU.
- For agricultural products in general, developed countries are perceived as comparatively more NTM-restrictive than other markets.
- Most of NTMs in agriculture (more than 40 percent) relate to control and administrative procedures (categorised as conformity assessment).
- NTMs significantly reduce DCs' agricultural exports to OECD countries, but do not affect trade between OECD members (rather, OECD agri-food exporters tend to benefit from NTMs at the expense of exporters from DCs).

Domestic NTMs in DCs

In addition to NTMs in foreign markets, there are domestic NTMs to trade in DCs that impede exporting activity (Cadot & Gourdan, 2012). The common perception is that NTMs are faced in the destination market. More than 25 percent of reported problems correspond to measures applied by the home country of the exporting company. An important category of problems faced at home by exporters is procedural obstacles. The second most important problem concerns red tape and corrupt practices. The WTO categorises them as trade facilitation issues such as excessive customs documentation, import and export requirements, lack of cooperation among customs and other government agencies, inadequate use of information technology, information asymmetry and lack of transparency. These domestic NTMs increase transaction costs of exports, which adversely affects export competitiveness. We look at two sets of procedures — documentary compliance and border compliance – within the overall process of exporting or importing a shipment of goods. Table 6 reports for selected regions and developed and DCs the round of data collection for the project which was completed in June 2015.

Table 6: Doing business – trading across borders

Name	Time to export: Documentary compliance (hours)	Cost to export: Documentary compliance (USD)	Time to export: Border compliance (hours)	Cost to export: Border compliance (USD)	Time to import: Documentary compliance (hours)	Cost to import: Documentary compliance (USD)	Time to import: Border compliance (hours)	Cost to import: Border compliance (USD)
Regions								
OECD high income	5	36	15	160	4	25	9	123
South Asia	80	184	61	376	108	349	114	653
Latin America	68	134	86	493	93	128	107	665
Sub-Saharan Africa	97	246	108	542	123	351	160	643
Developed countries								
Australia	7	264	36	749	3	100	37	525
Germany	1	45	36	345	1	0	0	0
Japan	3	15	48	306	3	23	48	337
United Kingdom	4	25	24	280	2	0	8	205
United States	2	60	2	175	8	100	2	175
Developing countries								
Brazil	42	226	49	959	146	107	63	970
China	21	85	26	522	66	171	92	777
Colombia	60	90	112	545	64	50	112	545
Egypt, Arab Rep.	88	100	48	203	192	650	120	1383
Ghana	89	155	108	490	282	302	282	725
India	41	102	109	413	63	145	287	574
Indonesia	72	170	39	254	144	160	99	383
Sri Lanka	76	58	43	366	58	283	72	300
Zambia	130	200	136	370	134	175	139	380

Source: World Bank

The longer time and higher cost needed to arrange exports from DCs reflects a relatively higher level of domestic NTMs for DCs' exporters compared to developed countries' exporters. Furthermore, most export products have a component of imports, so ease of importing facilitates exports. Therefore, the requirement of longer time and higher cost to arrange imports also amounts to domestic NTMs for DCs' exporters

Although domestic NTMs impact all exports from DCs, the adverse impact for processed agricultural exports from DCs can be relatively high as DCs have to compete with developed countries. This is not the case for many primary products (such as coffee, cocoa, tea, tobacco, rubber and cane sugar) for which competition is among DCs that face more or less similar levels of domestic NTMs.

Conclusions and policy implications

The objective of this paper is to understand why DCs perform poorly in agricultural processed product exports despite being the main producers of many of these products in their primary form. The evidence clearly points to the widespread prevalence of NTMs in developed countries that impact on trade of processed agricultural products and that have relatively more severe effects in restricting market access for these products from DCs.

These conclusions have important policy implications in terms of the effort that trade negotiators and policy planners need to make to manage and reduce these barriers, particularly those that unjustifiably curtail trade. The analysis also highlights that domestic NTMs are an important trade barrier for DCs' agricultural processed product exports. This is an area where DCs must act urgently if they want to compete with developed countries. The potential benefits from lowering domestic NTMs appear to be large, as this could add considerably to the export potential of DCs by lowering the transaction costs of their exports. This again has important policy implications in terms of the effort that individual DCs policy planners need to make to lower these barriers.

It should be stressed that the analysis nowhere suggests that NTMs are the only or the main cause of the inability of DCs to capture a larger share of agricultural processed product world exports. The reasons for this failure can be many, in particular the intrinsic supply-side constraints in DCs limiting their ability to diversify into processed product exports. Moreover, there may be some comparative advantage associated with processing in developed markets. If developed markets are major consumers of the final (processed) products, an advantage of production being closer to the consumers is of adjusting production and marketing promptly to changing consumer preferences as well as meeting the requirements of supermarkets and retailers. Another advantage is of access to primary product from more than one origin. For example, most of the popular coffee and tea retail brands are blends that use coffee and tea from different origins in different proportions.

Arguably some of the above-mentioned advantages of processing in developed consuming markets can be countered by DCs' advantages in areas such as cheap skilled and unskilled labour. The balance of advantage for individual products can be ascertained only on the basis of careful review and evaluation.

Notwithstanding the above, lowering NTMs does offer a dynamic opportunity for many DCs to increase exports of agricultural processed products both to developed and developing country markets, in particular for those agricultural products that in their primary form are mostly produced in DCs. An important dimension of agricultural trade liberalisation is the need to ensure that the issue of NTMs is high on the agenda of developing country trade negotiators and that DCs pay more attention to addressing their domestic NTMs, particularly streamlining the process of exports and imports to reduce time and transaction costs of exporting and importing. With a high share of agriculture in gross domestic product and in exports, the costs associated with complying with NTMs in agriculture have a relatively higher overall economic impact in DCs than in high-income countries.

Undoubtedly there is need for greater policy coherence with regard to NTMs. To the extent NTMs relate to changing commercial practices, health and safety concerns, and technological advances, they are most likely to stay. It should also be kept in mind that good regulation can also facilitate trade and development. This explains the need for greater attention to NTMs by countries and trade negotiators. The challenge remains to separate protectionist and non-protectionist measures and to identify alternative policies that are less onerous for trade. More attention should be given to identifying NTMs that are of particular concern to DCs agricultural processed exports so as to help determine priority targets for strengthening special and differential treatment (SDT) as well as international collaboration in the field of NTMs. DCs too should step up their efforts to implement domestic policies that assure compatibility with international standards and assist agricultural processors and producers in meeting the required standards and regulations for exports.

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Appendix 1: The classification of agricultural products

				Of which: Processed (final) products	
All Agricultures	Product category	SITC	Product Name	SITC	Product Name
Tropical Products	Coffee, Cocoa and Tea	071	Coffee	0712, 0713	Coffee roasted, extr/essen/sub
		072	Cocoa	0722, 0723, 0724, 0725	Cocoa powder, paste, waste
		073	Chocolate/preps	073	Chocolate/preps
		074	Tea and mate	0743	Tea extracts/preps
	Nuts and Spices	0577	Edible nuts, fresh/dried		
		075	Spices		
	Sugar and Confectionery	06	Sugar and honey	062	Sugar confectionery
	Textile Fibres	26	Textile fibres, silk, cotton, jute		
Temperate Products	Meats	01	Meats and products	016, 017	Meat/offal preserved
	Dairy Products	02	Milks, cheese & eggs	0222, 0223, 0224, 023, 024, 0252, 0253	Milk concentr., powder, butter, whey, cheese, egg processed
	Grains	04	Cereals	0423, 046, 047, 048	Rice milled, flour, meal, bakery
	Edible Oils and Seeds	22	Oil seeds	2239	Oilseed flour/meal
	Animal Feeds	08+4	Animal feeds, veg oils/fats	08113, 08119, 0812, 0813, 0814, 0815, 0819, 4	Fodder, residues, oil cakes, fish meal, starch, fixed oils/fats

Source: Aksoy and Ng (2010) Standard International (SITC 3) for separating the agricultural processed products

Seafood, Fruits and Vegetables	Seafood	03	Fish, shell fish etc.	0353, 0354, 0355, 037	Fish, smoked, preps/presv.
	Fruits and Vegetables	05-0577	Fruits & veg, excl. nuts	0547, 056, 058, 059	Fruit & veg presv/preps, juices
	Flowers & Crude Veg Material	292	Cut flowers, roots & lac/gums		
Other Processed Food	Tobacco	12	Tobacco /manufactures	122	Tobacco, manufactured
	Beverages	11	Beverages, alcohol/non-alc	111, 112	Beverages, alcohol/non-alcohol
	Other Processed Food	09	Other food preps/sauces	09	Other food preps/sauces
Other Agricultures	Other Raw Agric. Products	00	Live animals		
		21	Hides and skins/fur		
		23	Crude rubber, synthetic		
		24, 25	Wood/cork and papers	251	Pulp and waste paper
		291	Crude animal & veg materials		

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Closure of Central Public Sector Enterprises in India: a case study

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Abstract

Changing objective circumstances over time often warrant the closure of public sector enterprises that may have originally been established due to compelling public purposes. Many public enterprises lose their relevance and public purpose, become chronically loss making and are a recurring drain on public resources. Yet it has been found to be extremely difficult to actually close down any such enterprise due to a host of institutional constraints unique to the public sector. Closing down a public enterprise is difficult but not impossible, given the will and sincere execution. It has been done in India. While the practicalities have to be worked out, closure of any entity needs to be implemented sensitively given the human dimensions involved. This paper brings out a case study of the experience in implementing the closure of five public sector enterprises in India during the period 2014-16.

KEYWORDS: Public Sector; State Owned Enterprise; Public Enterprise Governance; CPSE

Introduction

The first Central Public Sector Enterprises (CPSEs) in India were set up shortly after India attained its independence in 1947. The first was the Indian Telephone Industries established as a departmental factory in 1948 and incorporated as a public company in 1950 (Gupta, 1994, p. 168). The country had emerged from an impoverishing colonial rule, and was an underdeveloped, largely agrarian economy. Rapid economic development was seen as a national imperative to improve the living standard of the people. This was sought to be achieved through central economic planning and a policy emphasising industrialisation and import substitution (Weisskope, 1967; Krueger, 1975).

However, there was limited capital available and hardly any capacity in the private sector to establish new industry. In the absence of private sector capacity at the time, it was felt that the industrialisation would have to be led by the establishment of public sector enterprises. The concept of “commanding heights” of the economy came into vogue at the time to describe the role of these enterprises (Tharoor, 2011). CPSEs were intended to build the industrial base, which in turn would spark growth in the economy. At the same time, CPSEs were also expected to bring about regional balance by being located in the backward regions of the country, generate employment and contribute to public welfare.

The CPSE focus was further sharpened with the theoretical foundation of the Mahalanobis Model propounded in the Second Five Year Plan (Mahalanobis, 1953). This prioritised investment in capital goods, or the machines that make machines. Production of capital goods would enable the buildup of domestic capacity for manufacturing, and eventually for consumer goods. This strategy was expected to accelerate the pace of industrialisation and speed up economic growth. Consequently, a number of CPSEs in the areas of heavy industry and engineering goods came up. Public sector industrial development in this phase was in areas like mining, metals, steel, energy, telecom. The number of CPSEs kept growing over the decades, expanding into new areas. The trend of expansion continued partly due to waves of nationalisation. Industries like coal and banking were fully nationalised. Other major areas in which CPSEs established a strong presence included oil, power, aviation, shipping, textiles, tourism, civil construction and trading.

From a modest beginning of just five enterprises in 1951, there were as many as 366 CPSEs in existence in 2020. The number of CPSEs in existence in recent years is given in Figure 1. 171 of these CPSEs are profitable, while 84 were loss making. The total losses of these loss-making CPSEs were Rs. 448 billion - approximately US $ 6 billion at current exchange rates (GOI, 2021). While most of the profit making CPSEs continue to be relevant in the current context and contribute to the public exchequer, many others became less relevant over time. Over time many of the CPSEs have achieved the purpose for which they were set up and have sparked industrial development in their area of operation. A strong industrial base has been created, as envisaged by the decision-makers in the 1950s. A vibrant private sector has come up in the same areas of operation as the initial CPSEs, albeit with more modern technology and higher levels of efficiency.

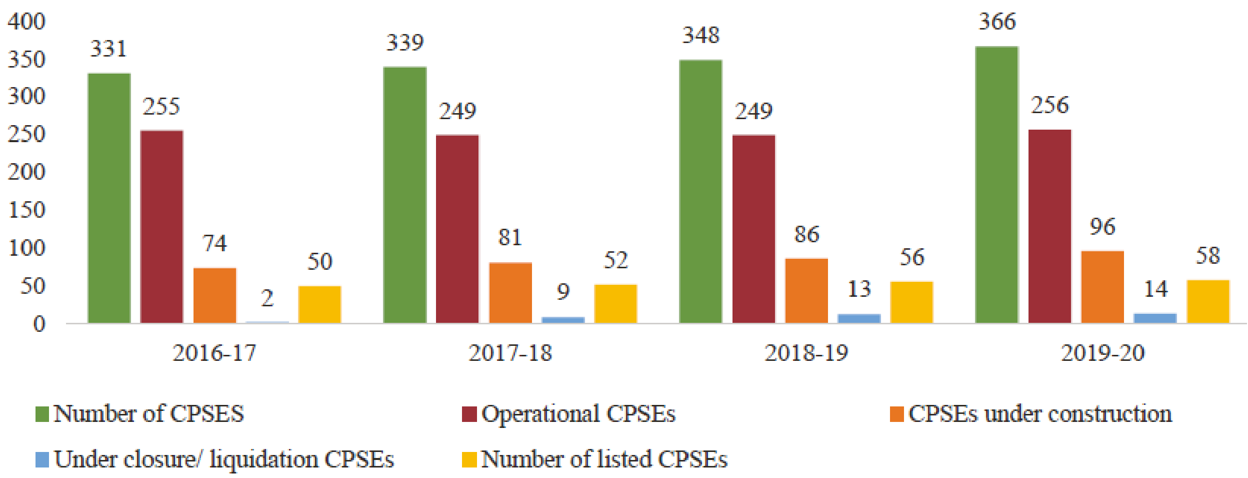

Figure 1. Number of CPSEs
Source: GOI (2021)

Consequently, many of the CPSEs outlived their utility. They started making losses. Some became totally unviable and ceased production. However, the socialistic oriented and pro-public sector policy mindset prevailing did not encourage closure and/or disinvestment of these enterprises. Instead, repeated efforts were made to restructure and revive them by infusing fresh capital.

Post Liberalisation Policies on Disinvestment/ Closure of CPSEs

Major structural economic reforms were taken up in India from 1991, as part of these reforms, a wave of liberalisation in industrial and trade policies took place (Ahluwalia, 2002). Only then did disinvestment, privatisation, and closures of CPSEs come into the policy discourse. The broad thinking as it evolved was as follows. CPSEs considered to be of strategic importance and those that were viable and profit making were to be continued and strengthened. For them, mechanisms for devolving greater autonomy in decision-making at the enterprise level were put in place. For others, various forms of disinvestment were considered, depending on the circumstances. These forms of disinvestment included outright privatisation, sale of minority shares, winding up and closure of the enterprises.

Closure of enterprise ideally needed to be considered when the enterprise was found to

- have outlived its purpose
- become non-competitive due to changed market environment
- be chronically in losses
- have ceased production
- require budgetary support just to exist and pay salaries.

However, the political ecosystem has been traditionally highly sensitive to any proposals for closure of a CPSE. Part of the reason was ideological, resting on the deeply ingrained notion of CPSEs being "good" and the private sector "bad". Other factors too made decision-makers reluctant to bite the bullet of closure. Regional and local interests felt it was a setback for them if a CPSE located in their local area were to close down. The location of the CPSE very often was a matter of prestige. In keeping with the early policies aiming at balanced regional development, many of these CPSEs were located in relatively backward areas. It was felt that even sick CPSEs had a welfare role and workers jobs should be protected. The first effort should be to revive sick CPSEs rather than close them down. There was apprehension regarding the alienation of the lands held by CPSEs, which over time had become prime urban property.

As a result, while there was progress in privatisation and stake sale of CPSEs after 1991, not much progress could be made in closures. Attempts that were made got bogged down in litigation and scam allegations. For example, the closure and sale of textile mills by e-auction by the National Textile Corporation became the subject of a criminal investigation over allegations of land having been sold below market value (Financial Express, 2015). The closure of another CPSE Hindustan Photo Films could not be effected for decades after the cessation of production due to protracted litigation by employees who were going to lose their jobs. Even though the continuance of many CPSEs had become totally unsustainable, public money was being spent every year on keeping them afloat.

Roadmap for Closure

A new Government took office in India after the General Elections in 2014. This government immediately sought to impart a fresh thrust to the disinvestment and closure initiatives. The Government directed all administrative ministries and departments to review the portfolio of CPSEs under their administrative jurisdiction and working on the assumption that such budgetary financing would not be available to support loss-making CPSEs in future, propose a roadmap for closure of those CPSEs that required budgetary support to exist.

It was in this backdrop that the Department of Heavy Industry (DHI) reviewed the position each CPSE under its domain with the chief executives of the concerned CPSEs. It was agreed that here was a high opportunity cost of continuing with the status quo, in terms of alternate uses of public funds foregone. It was felt that DHI needed to make a determined effort to implement the closure policy, as it would enable budgetary funds and assets to be released from unproductive assets and be better utilised for public welfare. Further, it was clearly understood that in view of the fact that such efforts had not made much headway in the past, DHI must be willing to make special efforts to execute the closure policy of the government. Accordingly, a Roadmap for closures for the enterprises in the jurisdiction of DHI was formulated. Before final approval of the Roadmap, DHI shared it with the stakeholder departments of the Government, i.e. the ministries/departments of Finance, Planning, Public Enterprises, Labour & Employment, Land Resources, and Urban Development, and obtained their support. The Roadmap noted that over Rs. 3,000 crores had been provided as direct budgetary support by Government to eleven CPSEs over the last ten years (financial years 2004-05 to 2014-15). It was projected that out of these eleven, four would not require budgetary support any further. Two others would require financial support only for another year till 2015. The remaining five CPSEs were not found to have any prospects of being viable or existing without budgetary support Therefore they met the criteria to be closed.

The Five CPSEs

The five non-viable CPSEs were HMT Bearings, HMT Watches, HMT Chinar Watches, Tungabhadra Steel Products Ltd. (TSPL), Hindustan Cables Ltd. (HCL). The three HMT companies had been spun off from the parent Hindustan Machine Tools (HMT) that was a pioneer in the establishment of the machine tool industry in India. All had negative net worth. A brief picture of these enterprises is given in Table 1

In each of these cases, it was found that the products of the enterprise had become obsolete or irrelevant. HMT Watches once had a near monopoly on watch production in India and its watches were highly sought after. Post liberalisation, more modern and attractive watches started to be produced in the private sector, slowly reducing the market for HMT watches. Similarly ball bearings became readily available more competitively in the private sector, rendering the company HMT Bearings virtually defunct. The purpose for which TSPL had been set up was to provide equipment for construction of Tungabhadra Dam in the 1950s. That purpose had long since been fulfilled, and TSPL's operations were at a standstill. The telecom cables used in fixed line telephony had become obsolete with the shift to wireless technology, and Hindustan Cables Ltd. found itself producing items that no one wanted any more.

Table 1: Snapshot of the five CPSEs identified for closure

S.No.	Company	Established	Product	Employees	Pay Scale
1	HMTBL	1964	Ball bearings	62	1992
2	HMTWL	1961	Watches	1055	1992
3	HMTCWL	1971	Watches	34	1992
4	TSPL	1948	Gates and spillways for irrigation dam	84	1992
5	HCL	1952	Telecom Cables	1709	1997

In some of these cases, there were also management issues that sometimes arise in public sector entities. Often, it is an inability to respond quickly to changing circumstances that is responsible for the decline in relevance. In all the cases, the net worth of the companies had been totally eroded. Due to institutional constraints, neither could they change course easily, nor could a timely decision on winding up be taken, leading to these enterprises becoming a recurring financial burden on the owner i.e. the exchequer. The closure strategy that was proposed in the Roadmap and approved by the Government of India was as follows:

Employees

The CPSEs would be closed under the provisions of the Industrial Disputes Act, 1947. Under this Act, the employer can close a unit after giving sixty days' notice to the appropriate government stating clearly the reasons for the intended closure of the undertaking. It was proposed that all the employees of these five CPSEs be offered an attractive Voluntary Retirement Scheme (VRS) calculated at notional 2007 CPSE pay scales instead of the actual pay scales prevalent in the CPSE.

The Government of India lays down the guidelines for setting pay in CPSEs. Common pay scales are set for all CPSEs, and these pay scales are revised every five years. The common CPSE pay scales are known by the year of revision e.g. 1992, 1997, 2002, 2007 etc. If the financial health of the CPSE does not permit it to bear the additional burden of revision from its own resources, the CPSE cannot revise the existing scale, and continues to implement the scale that it is already at. The pay scales of these loss-making CPSEs were of 1992 and 1997, which were substantially lower than the 2007 pay scales. Normally, VRS offered is linked to the actual pay been received by the employee. The significance of the "2007 CPSE pay scales" in this package was that for the first time the VRS offer was delinked from the actual and made more generous. It was also provided that employees not opting for VRS in the prescribed period would be retrenched by following the procedure prescribed under the Industrial Disputes Act.

Assets

Movable assets like plant and machinery, fixtures, vehicles etc. would be either auctioned or transferred to holding/subsidiary CPSEs or Government controlled bodies. Immovable assets like land and buildings would be transferred to Central/State Government or Government entities/PSUs only, depending on the terms of the lease/ownership in each case

Dues to creditors

While not explicitly mentioned in the Roadmap, the understanding was that dues owed to Government would be written off, while a One Time Settlement (OTS) would be negotiated with financial creditors like banks.

Rationale for the Roadmap

The Roadmap for closure of CPSEs drew on the lessons learnt from the experience of unsuccessful attempts at closure in the past, and sought to put in place a practical and workable strategy that addressed key institutional constraints upfront, and did not brush them under the carpet as in some cases in the past.

What then were the big steps forward, and how were the key constraints addressed? The most important institutional issue identified from past experience was that of the process of disposal of land assets of the enterprise to be closed. Senior officers were extremely reluctant to get into the decision making on disposal of land to private parties. The legal framework and experience of the actual application of the legal framework was not encouraging. No matter how transparently land assets are disposed of, their post disposal value shoots up. This may even be due to normal escalation in land prices. When this happens, and there is a complaint, the concerned officer is vulnerable to the charge of criminal misconduct under the Prevention of Corruption Act. Under Section 13(1)(d)(iii) of the Act as it then stood, a public servant was said to have committed the offence of criminal misconduct, if he/she "obtains for any person any valuable thing or pecuniary advantage without any public interest".

Notably, it was not necessary under this provision for the public servant to have had criminal intent and to have personally benefited (quid pro quo) from the decision. Any land sale in a growing and urbanising economy, would with passage of time be likely to lead to a "pecuniary advantage" to some person, and it is up to the agency investigating to determine whether this was "without public interest." Unfortunately, there had been a number of such cases in which it has been so determined, and the dealing officers prosecuted. The sale of textile mill land by the National Textile Corporation was one such instance. Understandably, officials dealing with closure and land alienation of public enterprises would find ways and means to ensure that they did not have to take such decisions during their tenures. This was a major impediment to implementation of a closure policy. The problem was tackled in a practical manner by restricting the disposal of immovable assets primarily to Central and State Governments, their enterprises and state entities. This makes sense if we look at government as a whole, and not enterprise wise or departmentally.

Most of the CPSEs set up earlier were able to obtain land at prime locations near urban centres at nominal cost. These areas developed and then became heavily urbanised. To meet fresh requirements of urban land for public entities, the costs of acquiring land are now high, and prime locations are no longer available. Locations are available only at a high cost and at considerable distance from the urban centres. With this strategy, idle productive assets of PSUs could be gainfully utilised for alternate public purposes, reducing the cost to the taxpayer of these public purposes. Also, a window was opened to meet priority land requirements of governments and public projects in suitable locations nearer urban centres. Most importantly, there would be no reason for any reluctance on the part of the concerned officials to take decisions, since any land value related windfall benefit that may arise in future would accrue only to a government or public entity. There would be no possibility of allegations of providing pecuniary advantage to any private buyer.

The second key institutional constraint that was addressed was the resistance from employees and their unions. Fresh thinking was needed in structuring an employee friendly settlement. Past efforts had often been derailed by the reluctance of employees to sever their ties with their company, particularly due to a sense that the financial incentives for doing so were inadequate. Brought up in a welfare state ethos, managements were also less than enthusiastic in implementing steps for separation of employees. Government efforts to force the pace usually ended up in protracted litigation. An example was the case of Hindustan Photo Films (under the Department of Heavy Industry) which was first declared bankrupt in 1996 but in the face of fierce resistance by a section of the employees could be finally closed after lengthy litigation only in 2018 (Times of India, 2018).

The new strategy provided for a Voluntary Retirement Scheme (VRS) and the calculation of a separation package for the VRS on the basis of the 2007 CPSE pay scales. This was a departure from existing guidelines of the Department of Public Enterprises, which did not provide for determination of VRS on the basis of notional pay scales. Notably, employees of most sick/loss-making PSUs were on the 1992 or 1997 pay scales, and this decision was substantially beneficial to them, as it calculated the severance package on the basis of a higher notional scale which was not actually being received by the employees of these PSUs. While this would mean a higher one-time outgo from the public exchequer, it would be well worth it if it could result in stemming the continuous drain on budgetary resources.

Along with the VRS, the Roadmap required the invoking of the Industrial Disputes Act, 1947. This permits the employer to announce the closure of the enterprise and seek permission from the Government of India’s Ministry of Labour & Employment for implementing closure in 90 days. This put in place a supporting incentive structure so that incomplete acceptance of VRS by a few holdout employees did not indefinitely hold up the closure process. Once the deadline for

VRS was reached, any remaining employees who did not opt for the generous VRS would necessarily have to be retrenched as per law, and the retrenchment package would obviously be less generous than the VRS.

In the cases of the five identified PSUs, employee unions (with one exception, that of the Raniganj unit of HMT Watches) generally welcomed the package. In the face of imminent closure of the unit, unions appreciated and that what was being offered represented a very fair deal. Accordingly, they urged DHI for its expeditious implementation.

Regarding the dues to Government, there was no option but to write them off, as it was Government which had proposed closure to stem the recurring drain on its resources once and for all. For financial creditors, it was assessed that since presently they were unable to get anything at all from the loss-making enterprises, and were also unable to exert any pressure on the owner i.e. Government, most would be very keen for a OTS so that they could at least get some of their money back.

Outcome

All the five CPSEs covered in this case study were successfully closed. Considering that closure efforts in the past had got bogged down and could not be implemented successfully, this was a big step forward. HMT Bearings, HMT Watches, HMT Chinar Watches and Hindustan Cables were closed in 2016 while Tungabhadra Steel Products Ltd. was closed in 2018. Except for one unit of HMT Watches, settlement was reached with the employees and creditors on the proposed lines prior to closure. In the case of one unit of HMT Watches, 146 employees approached and obtained a stay from the concerned High Court. Disposal of land and movable assets went according to the Guidelines. A separate Land Management Agency was designated to handle the disposal process, while another CPSE (the Metals Scrap Trading Corporation or MSTC, which specialises in e-auctions) was nominated to handle the disposal of the movable assets.

Conclusion

CPSEs in India continue to have a twin objective of commercial efficiency and social responsibility. The challenge for these enterprises arises out of the need for them to ensure a good return on investment, while discharging their social obligations. They are expected to act as model employers, and conduct their business in a transparent manner protecting interests of all stakeholders e.g., the employees, customers, suppliers, creditors, and the community. The current environment, including aspects of competition and globalisation being faced by the CPSEs, makes these tasks all the more challenging and the rationale for their existence as the remnants of India's socialistic legacy is being questioned (Chhibber and Gupta, 2019).

Notwithstanding economic liberalisation, Government of India still views the role CPSEs as important in fostering economic growth, infrastructure development, healthy market competition and corporate social responsibility, especially in the fields of health, education and skill development. There is less enthusiasm for continuing CPSEs in the field of industrial production.

Closing down five CPSEs was a trailblazing initiative, since at the time other Central Government departments preferred to adopt a more conservative and cautious approach on the implementation of the policy regarding closures of their CPSEs. As a result, the approach adopted by the DHI Roadmap became the template on which the government developed its Guidelines for all future closures of CPSEs. The Guidelines (GOI, 2018) adopted in 2016 further refined, clarified and detailed the steps to be followed in such cases. These Guidelines, with some amendments made in 2018, continue to set government policy and guide implementation today.

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Yogic Science for Human Resource Management in Public Enterprises

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Abstract

Human resources management is the process of managing people in a structured manner to help the organisation to meet its objectives. In public enterprises the objectives are multifarious and sometimes opaque; and hence human resources management is more complex. An increase in occupational stress which has an adverse effect not only on the health and wellbeing of the individual but also on the health of the organisation. In the frenetic world of today where management principles are being turned on their heads there are some principles and precepts which are constant and which can help in the development of human resources in such a way that the health of the organisation and the health of the individual is safeguarded. In this paper we will see how the techniques and practices of Yoga – a time-tested oriental science – may be helpful in the public enterprises by reducing the stress level of the employees and increasing their greedlessness and public spiritedness.

KEYWORDS: Yoga, Occupational health, Public enterprises, Stress, Human Resource Development.

Introduction

The human resources field began to take shape in 19th century Europe. It built on a simple idea by and Charles Babbage during the industrial revolution. These polymaths concluded that people were crucial to the success of an organization. They expressed the thought that the well-being of employees led to perfect work; without healthy workers, the organization would not survive. Human Resource Management as an academic disciple gained respectability in the early 20th century, when researchers like Fredrick Winslow Taylor began documenting ways of creating business value through the scientific management of the workforce. Due to scholarly research by the pioneers, technical advancements and globalisation, the function has moved beyond routine transactional work. Raising the productivity of work force remains the main objective of Human

Resource Management and the experts in this field are constantly scouring the world of ideas for adoption or adaptation in furtherance of this objective. The focus is on developing a work force which can effectively help the organisation to meet its objectives. There are three fundamental components of human resources development: individual development, career development and organisation development. Of these three the most important is the development of the individual which involves developing individual skills, knowledge and improving the psychosocial work environment. Strategic improvement in workplace performance depends, among other things, upon a healthy and mentally focused workforce (Gilbreath & Montesino, 2006). Workplace stress and improving resilience to stress is engaging many organisations as they struggle to meet organisational restructuring demanded by globalisation and technology.

Public enterprises differ from private enterprises in several ways which affects the working of the managers (Chhibber & Gupta, 2019; Kresl,2019; Varghese & Jabamala, 2019). The main motive of private enterprise is increasing shareholder value; that of. public enterprise main motive is to render service to general public. Private enterprise make their own rules and regulations. Public enterprise involves lot of rules and regulations under the dictat of the government. Private enterprise involves funds from individuals, whereas public enterprises get their equity from the government. In most countries, level of corruption in the public enterprises is higher than that in private enterprises mainly because it is very difficult to punish employees. Sub-national level SOEs are usually more inefficient and corrupt than national level SOEs (Asthana, 2013) Stress levels among SOE managers are high because of constant scrutiny by the public auditor, the vigilance authority and the courts. Expectations from the employees of public enterprise are higher. It is expected that if they observe that the organisation's interest is not aligned with the public interest, they will follow their conscience. Human resource management in the public enterprises needs to find ways to reduce the stress level of employees as also bring about attitudinal changes that bring about greedlessness public spiritedness.

Stress at the work place

Stress is commonly understood as a mentally or emotionally disruptive or disquieting influence or alternatively, a state of tension or distress caused by such an influence. Stress is the inability to cope with the perceived threat to one's mental, physical, emotional and spiritual wellbeing. Definitions found in psychological books also focus on the adverse effect of stress on the physical and mental body. Stress is a psycho-physiological arousal that can fatigue the body systems to the point of malfunction and disease (Girdano et al., 2009).

Occupational stress is a widespread phenomenon and is a contributory factor to absenteeism, physical and psychological illnesses and lowered productivity (Albrecht, 1979). In the 1990s surveys conducted in the U.S.A by Northwestern National Life Insurance Company, Princeton Survey Research Associates, St. Paul Fire and Marine Insurance Company, Yale University and

The Families and Work Institute revealed high levels of stress at the work place. The surveys also indicated that job stress was associated with health complaints. A subsequent 2000 Integra survey also reported that nearly 65% of workers said that work place stress had caused difficulties. The survey also revealed that stress caused health related problems. 62% of the workers had work related neck pain; 44% reported stress in eye; 38% complained of hurting hands and 34% reported difficulty in sleeping because of stress.

The World Health Organisation has dubbed stress as an epidemic and a survey done in U.K. found that senior human resources professionals believe stress to be the biggest threat to the future health of the workforce. It is estimated that 175 million working days are lost each year in the U.K. due to sickness absence out of which half are stress related. In the USA the number of employees calling in sick tripled from 1996 to 2000, and the European Agency for Safety and Health at Work reported similar figures. A subsequent European Commission Survey found that occupational pressures were responsible for 30% of workers suffering from back pain, 20% complaining of 'stress'; 20% feeling fatigued and 13% with headaches. Work related stress has also been associated with hypertension and with conditions such as anxiety and depression (Iacovides et al., 2003).

Management of Stress

The state of stress is not fixed. It remains in a continuous state of flux in which the cognitive, behavioural and physiological processes interact. However, it is possible to aggregate information and come to a conclusion about the state of stress. Though the stress management field lacks strong theoretical foundation, there are some models which help to manage the stressors. One model of stress and health is interactional model in which the magnitude of a stress response can be better predicted by understanding the stressor in the context of the disposition of an individual, thereby facilitating a better understanding of individual differences to stress response (Levi,1984).

While Levi's interactional model is a general model applicable to all situations of stress, Karasek's Job Strain model is helpful in identifying those work characteristics which might contribute to job stress. Occupational stress research has widely used this model. Karasek's Job Strain Model proposes that when the demands of an occupational situation exceed the levels of control over the job and the social support available to the individual then there is an increase in psychological and physical illness. Levels of control over the job entail decision making authority, support from supervisors and colleagues and confidence to get the designated job done. Psychological health and job satisfaction are the two outcome variables frequently used to measure job strain. Psychological health is a sense of wellbeing which is context free, while job satisfaction refers mainly to the feelings that individuals have in relation to their jobs i.e. the feeling is specific to the job. The state of stress manifests where there are low levels of psychological health and job satisfaction (Carayon, 1993). Management of stress has to be a priority in human resource management in public enterprises.

What is Yoga

Yoga is an ancient oriental science and an eastern perspective on physical, mental and emotional health. At the personal level, a large number of successful businessmen are practicing yoga. A book titled ‘Autobiography of a Yogi’ was the only book downloaded by Steve Jobs on his personal iPad 2 before he died shortly after the launch of the product (Asthana& Asthana, 2012). A large number of companies are encouraging their employees to take up yoga.

Yoga considers the body as an instrument which enables the individual to evolve and to live and work fruitfully. A correct practice of Yoga is believed to fructify in health or wholeness through the rediscovery of the yoked reality of the experience of the individual of the body and mind. It brings the body and mind together into one harmonious experience. The body, mind and breath are connected to energise and balance the whole system. Routine practice of Yoga brings better health, mental peace and an integration which are precursors to a higher mental state. Yoga seeks to remove nine obstacles to a fulfilling life which are familiar to people of all places and in all eras: illness, mental stagnation, doubt, lack of foresight, fatigue, over indulgence, illusions about one’s true state of mind, lack of perseverance and regression.

Yoga probably arrived in the west in the mid- nineteenth century. In the late nineteenth century a few famous Indian yogis like Swami Vivekananda introduced yoga to USA. However, yoga became widely known and accepted only in the twentieth century (Douglass, 2010; Hunt, 2010). With the spread of knowledge of the beneficial effects of Yoga it gained wider acceptance and has also gained respect as a valuable tool for the management of stress and improving health and general wellbeing. Whereas the western experience of Yoga is generally limited to the practice of pretzel like poses, breathing and meditation, Yoga also includes a large body of precepts, attitudes and techniques though only a handful of western practitioners ever go beyond the level of posture practice (Fuerstein, 2008). In the context of human resource development in the public enterprises, Yoga could be defined as a set of practices which could holistically develop the employees and equip them employee with many practical tools to deal with work and life. This paper builds on ‘eastern wisdom and western knowledge’ theme in the context of human resource development.

Yoga techniques for Stress Management

Yoga is perhaps the most effective way to deal with various disabilities along the same, time honoured lines of treatment that contemporary medicine has just rediscovered and tested (Brena, 1972). Yogic body postures are probably the best tools to disrupt any learned patterns of wrong muscular efforts. Controlled breathing and withdrawal of mind from the domination of senses are extremely efficient techniques to divert the attention of the individual from the objects of the outer environment, increasing a person's energy potential and to achieving control of one's inner functioning.

In the early 1970's western science began looking at the system of integrated health and the physiologic benefits of meditation. This facilitated the mainstreaming of yogic science. During the last decades of the twentieth century, the work of pioneers like Benson, Ornish, Kabat-Zinn and Garfinkel brought yoga therapeutics into traditional medical awareness. Table 1 gives the components of a typical yoga class. The three yoga practices of body postures, controlled breathing and meditation commonly used in a typical yoga class will be discussed in some detail.

Body postures

The aim of the practice of body postures is to reduce the activity and inertia in the mind and reinforce clarity. In other words, body postures increase mental calm, clarity, steadiness and alertness. Finding the natural link between breath and movement is simple: on exhalation the body is contracted and on inhalation it is expanded. There are however some exceptions. There are two ways of practicing a body posture. The dynamic practice repeats the movement into the posture and out again in rhythm with the breath, whereas in static practice the posture is held for a certain number of breath cycles. The process involves moving into and out of that position with controlled breathing (Mohan & Mohan, 2004). Four starting body positions, four parts of the body and four directions of movement are involved as shown in Figure 1. The component movements, their interactions and their relationship to the breathing process and the spine are important. In therapeutic Yoga these are modified to meet the requirement of the individual.

Table 1
Components of a typical yoga class

Session Component	Description
Warm-up	Includes a question/answer period, light stretching, chanting, guided imagery, casual conversation, or silent focusing
Breathing regulation	Practicing a variety of breathing exercise, normally in a seated position; generally 5 to 10 minutes
Postures	Done in supine, prone, sitting, standing or inverted positions. Ranges from a few held for a long period of time to many done for 1 to 2 minutes. Can be static or strung together to flowing sequences. Intensity varies with the posture, the duration and the recovery periods allowed.
Relaxation/guided imagery	Usually done supine for 5 to 20 minutes toward the end of class
Meditation	Ranges from 5 to 30 minutes or more. Generally done in a seated position
Closing	Ranges from a simple verbal salutation, to open discussion or quiet socializing after class

The work place as also many sporting activities contribute to structural imbalance in the body. Body postures are useful in correcting structural imbalances by using movements to work on each side of the body separately. Ancient yoga texts emphasise the importance of maintaining the structure of the spine. Movements of the body as also breathing patterns affect the spine. With appropriate breathing and appropriate movement these postures can be used to maintain the strength and flexibility of the spine. The postures must have the dual qualities of alertness and relaxation. These qualities are achieved by recognizing and observing the reactions of the body and the breath to various postures. What differentiates yogic body postures from other form of exercises? Perhaps the most important distinction is conscious involvement of the mind in the movement and placement of the body.

Four components of the breathing cycle	Four body positions	Four parts of the body being moved	Four directions of movement
1. Inhalation 2. Holding 3. Exhalation 4. Suspension	1. Standing 2. Seated 3. Lying 4. Inverted	1. Arms 2. Legs 3. Head 4. Trunk	1. Forward 2. Backward 3. Twisting 4. Lateral

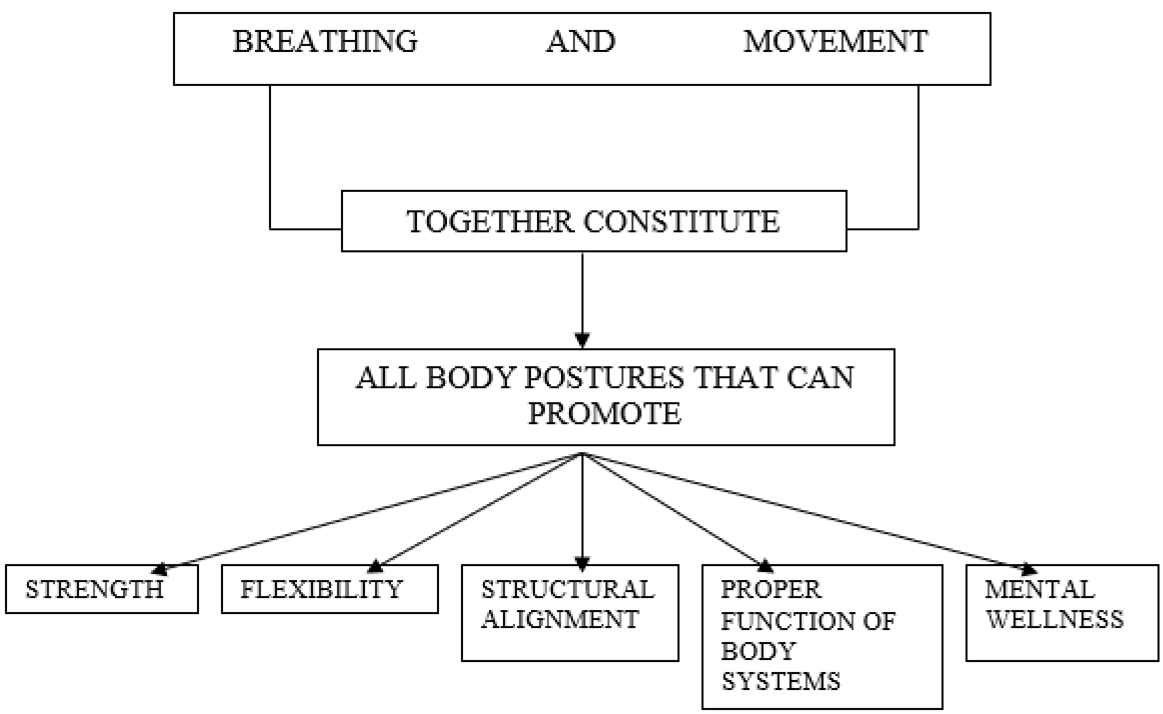

Figure. 1. Body Postures
Source: Mohan & Mohan (2004)

The ideal plan would ensure that all joints from toes to fingertips, all sections of the body, and the respiratory and the circulatory systems are adequately 'felt' and exercised. The guiding principal is step by step progression that has a beginning, middle and end. When applied to a particular posture progression begins with visualization, proceeds to the starting position with the incorporation of the breath into the movement. The performance concentrates on the flow of movement and smoothness of inhalation, exhalation and sometimes retention of breath, and then towards a prescribed completion. Each step is a preparation for the next. And so it is with the sequence of body postures. These body postures promote wellbeing, strength, flexibility, skeletal alignment and neuromuscular coordination for optimum body function and psychological wellbeing. This leads to clarity and balance of the mind.

Controlled breathing

Breathing **i**s a normal process of life, yet because of incorrect breathing practices sufficient blood does not reach the lungs, brains and other tissues. Under the state of stress, many people further restrict their breathing thereby increasing fatigue, muscular tension, irritability and anxiety while stressed individuals are often recommended to change the way they breathe as shallow breathing leads to an anxious state. Paying attention to breathing significantly reduces respiratory rate and decreases tidal volume instability. The yogic technique of controlled breathing has been found to be an effective tool in the management of stress. It is the conscious, deliberate regulation of breath replacing unconscious patterns of breathing. It involves the regulation of the inhalation, the exhalation and the suspension of the breath. The regulation of these three components is achieved by modulating their length, and maintaining this modulation for a period of time, as well as directing the mind into the process. These components of breathing are required to be long and subtle.

Breathing is the one physical function which is both voluntary and involuntary. The breath therefore, can be used to control the autonomous nervous system. In order to understand the science of controlled breathing it is necessary to consider the nature and function of the nervous system, for this system coordinates the functions of all the other systems in the body. It is subdivided into the central and the autonomic nervous systems. The central nervous system consists of the brain, twelve pairs of cranial nerves, the spinal cord and thirty one pairs of spinal nerves. The cranial and spinal nerves spread throughout the body, forming a network of nerve fibres. The automatic nervous system is subdivided into the sympathetic and para-sympathetic systems. These two systems work in harmonious regulation. The parasympathetic system, for instance, slows down the heart while the sympathetic system accelerates it and between these two opposing actions the heart rate is regulated. Research suggests that long controlled breathing activates the parasympathetic system and lowers stress (Jerath et al., 2006). Figure 2 shows the effect of controlled breathing on the parasympathetic system.

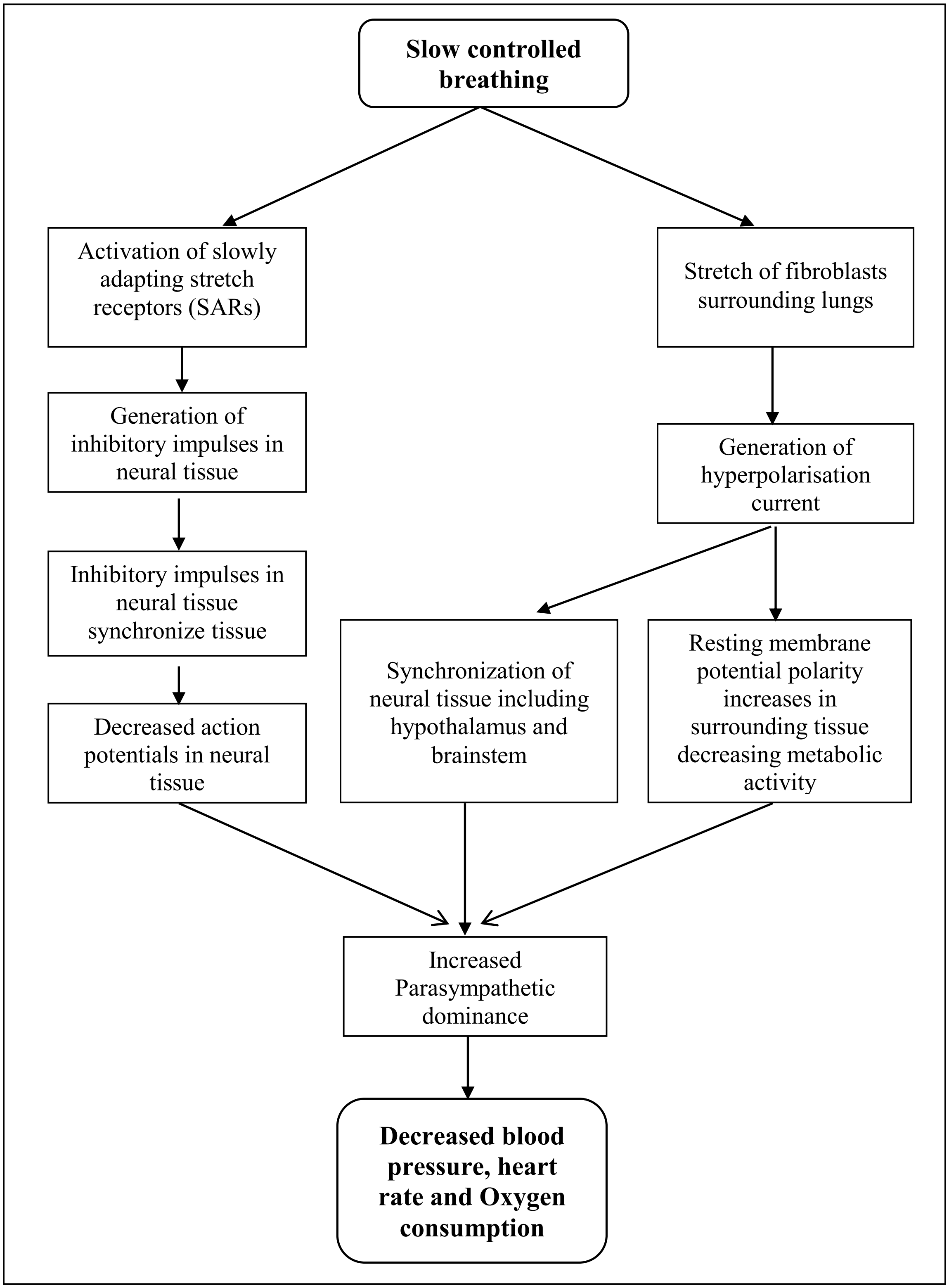

Figure 2. Effect of slow controlled breathing
Source: Iyenger (2002)

Meditation

Yoga has two traditional complementary meanings. The first is to ‘bring two things together’ and the second meaning is to ‘converge the mind’. The Yoga tradition places great importance on the mind as it believes that the mind is the cause of bondage and liberation of humans. Yoga is the cessation of the whirling thoughts in the mind. According to yoga the mind has a significant role to play in all disorders. A disturbed mind lowers the immunity of the body and makes it vulnerable to diseases. Every psycho-physiological disturbance, every negative emotion, apart from causing distress also interferes with the rhythm of muscles. This disturbance not only affects the skeletal musculature but the body as a whole thereby changing the entire postural substrate of the person. This along with disturbance in glandular secretions makes the body more prone to infections and disorders. Yoga prescribes various methods to quieten an agitated, restless mind. Persistent practice and detachment from cravings is suggested. Yoga also advises an attitudinal change to purify the mind. Changing dysfunctional habits and thoughts is largely a matter of mind. The prescription is to develop an attitude of friendliness, compassion, joyfulness and equanimity. Yoga shows ways of understanding the functioning of the mind and helps to quieten the movements leading to mastery over the mind and the emotions (Iyengar, 2002). It is interesting to note that the ways and means to achieve a balance described by Yoga are similar to the 'Rational Emotional Therapy' described in modern psychology.

Yoga is a contemplative tradition. Consciousness and attention actively cultivated in Yoga are employed for meditation. Besides the spiritual benefits of meditation, there are a wide range of physical and psychological benefits which are manifested through the practice of meditation. Reduction in levels of stress is one such benefit.

Mindfulness Meditation Based Stress Reduction

Mindfulness is inherently a state of consciousness. Although awareness of and attention to present events and experiences are present in all individuals, there could be a wide variation in the quality. The concept of mindfulness has roots in Buddhist and other contemplative traditions like Yoga where conscious awareness and attention are actively cultivated. Mindfulness is usually defined as the state of being attentive and aware of what is happening at the present moment. Western scholars prefer to subtract mindfulness from spirituality and consider mindfulness simply as a cognitive process (Asthana, 2021a). An individual can, at any given moment, be conscious of thoughts, motives, emotions as well as sensory and perceptional stimuli.

Consciousness encompasses both attention and awareness. Awareness provides a background to consciousness where the inner and outer environment is continuously monitored. An individual may be aware of a sensory stimuli without the stimuli being the focus of attention. On the other hand attention focuses conscious awareness by directing heightened sensitivity to a limited range of experience. But what actually happens is that awareness and attention are intertwined and there is a constant interplay between the two. Although attention and awareness are relatively constant features of the normal functioning of an individual, mindfulness leads to focused attention to and awareness of the reality of the moment or the experience of the event taking place at the moment. For example, while holding a baby a mother may be aware of the physical sensation of holding the baby as also the emotion of love. However, awareness or attention may be diluted if the individual is multi-tasking or can be compromised when an individual behaves impulsively. In such states which are less mindful, emotions may occur outside awareness and may commit an individual to behaviour not under the control of the individual. Mindfulness, thus, is associated with clarity and sensitivity of the experience of the individual at a given moment and is differentiated from automatic functioning. Mindfulness can be engaged to delink an individual from automatic thoughts, habits and unhealthy behaviour patterns leading to maintenance and enhancement of psychological and behavioural functioning and wellbeing (Ryan & Deci, 2004). For example, an open awareness may be useful in deciding on the choice of behaviour which are of relevance to the needs, interest and values of an individual. It is thought that attention is the key to the communication and control processes that underlie the regulation of behaviour.

Mindfulness which is an attribute of consciousness has long been associated with the promotion of wellbeing. Mindfulness based approaches are now increasingly being put to use for the treatment and management of a wide range of physical and psychological disorders. Such mindfulness based approaches include group based standardised mediation such as mindfulness based stress reduction and psychological interventions such as mindfulness based cognitive behaviour therapy. A review of the different mindfulness based approaches with respect to philosophical underpinnings, techniques, aims, outcomes, neurobiology and psychological interventions reveal wide differences in the ways mindfulness is conceptualised and practiced (Chiesa & Malinowski, 2011). However, the common ground is the mind. All the forms of mindfulness reflect cognitive operations on the aspects of the self through self-study. Mindful meditation involves focusing attention without judgment, on the moment. It is to be adopted as a way of life and is not situation specific. Mindfulness can disrupt the impulsive fight and flight reaction which depends on the sympathetic system thereby allowing the individual to consciously address a situation or event instead of reacting to it in an automatic fashion based on past experiences. It orients the individual to holistically look at inner resources for personal growth, learning and healing.

Mindfulness based stress reduction programs which were introduced in 1979 in the health clinic of University of Massachusetts generally consists of 8 to 10 weekly group sessions. The format has been designed to be skill based with a fair amount of interaction and discussion among the participants. Psychophysiology of stress is discussed and opportunities are provided to the participants to apply mindfulness skills to specific situations. Practice of meditation is taught and participants are also guided to bring mindfulness to everyday activities. Mindfulness reduces stress and improves job performance directly as also through increase in resilience (Arora, 2020; Asthana, 2021b). Mindfulness based stress reduction programmes are part of a patient centred educational approach that uses training in mindfulness meditation to teach people how to take better care of themselves so that they could lead a healthy and productive life.

Conclusion

Rene Descartes, the seventeenth century French Philosopher and mathematician was of the view that the mind and body are separate entities and therefore demand separate examination and separate treatment. This dichotomy between the mind and the body has since been supplemented by the idea that the physical, mental, emotional and spiritual aspects of the individual are all interconnected and influence each other. Yoga – an ancient oriental tradition – has a holistic view of the human being. There is a practical orientation of the psychological aspects of yoga. The theory - practice continuum, the psycho- integrative and experiential matrix of the concepts of yoga lay a fertile ground for the growth of the best techniques in the development and management of human resources. To get the best of yoga it has to be adopted as a technique and tool to manage life and work. Studies have validated the physical and psychological benefits of Yoga. A holistic discipline now calls for holistic adoption so that human resources are developed in a manner which contribute to the growth and wellbeing of the public sector enterprises as also the individuals working there.

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Integration of Human Values in Stakeholder Engagement for CSR – Illustrations from Indian Public Enterprises

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Abstract

Several public sector undertakings in India and across the world have taken up corporate social responsibility (CSR) initiatives in education to promote social welfare. The effectiveness of these initiatives depends on the level of stakeholder engagement in them. Integration of human values ensures that stakeholder engagement becomes holistic leading to co-created value for the benefit of all involved. This paper discusses a holistic values-based framework of stakeholder engagement inspired by the philosophy of Bhagawan Sri Sathya Sai Baba. Illustrations from the CSR initiatives of public sector undertakings in India have been provided to stress the benefits of integration of human values in stakeholder engagement.

KEYWORDS: Stakeholder engagement; CSR; Human values; Bhagawan Sri Sathya Sai Baba; Public enterprise

Introduction

Education is important for progress both at the level of the individual and society. This dual role makes education highly potent and beneficial. At the level of the individual, education becomes a vehicle of knowledge and success. It not only gives a platform to succeed but also strengthens social conduct, character and self-respect (Bhardwaj, 2016). Arthur et al. (2012) pointed that regardless of country, education is rated highly as a critical factor for successful entrepreneurship. At the level of society, education plays an economic and social role. The importance of education in economic progress is well documented. Individual and national incomes are impacted by education. Employment is related to education (Kaser,1966;

Carnevale & Fasules, 2017). Education is important for social cohesion. Without critical scrutiny developed by education, social disparities, which hinder social cohesion, can take root. Janks (2014) in this regard stated that social orders that create disparities based on arbitrary social categories, such as gender, race, class, ethnicity, and religion creating privilege for some at the expense of others, do not just happen. They are produced collectively and individually by society's actions and failures to act. An education that can develop a critical approach is needed to interrogate these practices in order to change them. Ultimately, education helps in the blossoming of human values which ensure that the society has responsible citizens (Bhardwaj, 2016).

While the importance of education is undisputed, the responsibility of providing quality education has been a matter of debate. A large number of scholars have stressed that it is the government's duty to provide quality education. It has been termed as a constitutional responsibility (Birch, 1975) to be provided by the government at all levels as an important function of the state (Zhanlan, 2010). However, in several countries, government agencies have not been successful in delivering quality education. Research studies in Africa (Philip, 2017) and Asia (Alam, 2015) have pointed out the inability of the government in improving the quality of education. In order to alleviate this challenge, there has been a call for social participants to engage in education (Bull, 2009). This includes individual families, larger communities and business entities. Corporations have played a role in education both from a business (Okulicz-Kozaryn & Lapitskaya, 2018), and societal objective (Tilak, 2010). In India, corporate social responsibility (CSR) has been an important medium through which business has participated in the cause of improving the quality of education (Thirumuru & Thirukkovela, 2015). Public sector corporations in India have actively contributed towards improving the quality of education in India through their CSR interventions (GAIL, 2019; Thacker, 2021).

Public sector undertakings have played an important role in the economic and social development of nations across the world. Studies have reported the contribution of the public sector to competitiveness in Italy (Patrizii & Resce, 2015), intellectual capital in Malaysia (Busenan, *et al.* 2018), labour markets in Germany (Senftleben-König, 2014), tourism in Croatia (Nikšić, & Perić, 2006), and gender equality in Europe (Vaughan-Whitehead, 2013). Public sector undertakings have contributed to India's growth story too. The public sector undertakings of the central/union government of India had a market capitalisation of 190 billion USD, with a total net profit of 19 billion USD and a total investment of 290 billion USD in 2019 (CAG, 2020). They have also contributed to social development through their CSR activities (GAIL, 2019; Powergrid, 2021; Thacker, 2021).

One of the important challenges related to CSR implementation is stakeholder engagement. Stakeholder engagement can be defined as 'practices that an organization undertakes to involve stakeholders in organizational activities in a positive way' (Greenwood, 2007). Stakeholder engagement is any process that involves stakeholders in some form of collaborative effort directed towards a decision, which might involve future planning and/or behaviour change (Gardner et al. 2009). It refers to trust-based collaborations between individual and social institutions to achieve common objectives (Rhodes et al. 2014). The extent of this collaboration can vary from brief and simple information exchange to more extensive and long-term relationships with stakeholders. Austin and Seitanidi, (2012) pointed that collaboration with stakeholders could provide greater overall value particularly in the area of sustainability and CSR. This is because firms do not have all the knowledge and expertise required to address complex CSR challenges. They must engage with stakeholders in the spirit of partnership and co-opetition to be effective in their CSR initiatives (Biondi et al., 2002). By engaging with stakeholders, organizations can achieve their CSR objectives and ensure that their decisions and activities are socially acceptable (Green & Hunton-Clarke, 2003). However, (O'Sullivan et al. 2020) pointed out that stakeholder engagement is often undertaken in an ad-hoc and ineffective manner.

Several frameworks have been developed to study stakeholder engagement in order to augment CSR performance (Rhodes et al., 2014; Blok et al., 2015; Haddaway et al., 2017; O'Sullivan et al., 2020). Firms need appropriate capabilities for stakeholder engagement that draw on the knowledge, understanding and behaviour of employees of the firm, working through structures and processes that cross traditional organisational boundaries (Rhodes et al., 2014). Apart from regular capabilities of communication and collaboration, firms also need new capabilities that arise from tacit knowledge and human values to effective stakeholder engagement (Sharma and Vredenburg, 1998; Sivakumar, 2017). This paper attempts to discuss aholistic humanvalues-based approach to stakeholder engagement in CSR. The paper is inspired by the philosophy of a world spiritual teacher and leader – Bhagawan Sri Sathya Sai Baba. The paper also uses public sector CSR interventions in education in India, to highlight the role of values in the stakeholder engagement process.

Public sector and CSR

The public sector has played an important role in the economic and social development of nations across the world. Showcasing the power of the public sector, Patrizii & Resce (2015) analysed the productivity of public sector corporations in Italy and found that productivity was very differentiated across services, layers of government and area. On the whole, the public sector did enhance the competitiveness in the Italian economy. Commenting on the importance of intellectual capital in the public sector in Malaysia, Busenan et al., (2018) stated that the public sector cannot remain isolated from a knowledge-based economy and need to contribute their might to intellectual capital through their knowledge management practices. Vaughan-Whitehead (2013) stated that the contribution of the public sector to gender equality in employment in the UK is multidimensional and the UK's has a tradition of using the public sector to set gender equality standards in pay and employment practices.

In India, public sector contributions are well documented. The public sector provided the much-required thrust to the Indian economy and was instrumental in setting up a strong and diversified industrial base in the country (Jain et al., 2014).). In the social sector, public enterprises have played an active role in rural development, education, environmental sustainability, health care and community welfare (GAIL, 2019; Powergrid, 2021; Thacker, 2021).

One of the major instruments of social involvement by the public sector in India has been through its CSR practices. Mansi et al. (2017) found that most of the vision statements of public sector undertakings are stated in terms of their social responsibility. Using a case study of public sector CSR, Rao & Balakrishnan (2010) showed that these undertakings enhance the quality of life through the provision of subsidized housing, water, electricity, sanitation, recreational facilities, solid waste management and free medical care. Additionally, the public sector has added to social infrastructure through the construction of schools, libraries, health centres, irrigation canals, check dams, and assisting in the desilting of water tanks. Social responsibility reporting also has been active among public sector enterprises (Kansal et al., 2018).

Sangle (2010) showed that effectively engaging stakeholder groups is a critical success factor in public sector CSR in India. Yet, despite the impressive performance of the public sector in CSR in India, one major concern has been ineffective stakeholder engagements (O'Sullivan et al., 2020). Ray (2013), in this regard, pointed out that for CSR to be more effective public sector stakeholder engagements needed to be streamlined. Importantly, managers at all levels needed a better understanding of CSR and stakeholder engagement.

CSR in education

After CSR was made mandatory in India, education has received a major portion of the funds spent on CSR activities (Sengupta, 2017). Interestingly, a common observation among various studies on CSR in education pointed that firms are comfortable at providing monetary or infrastructure-related support for education (Hossain et al., 2020; Ansu-Mensah et al., 2021). Preference for these activities normally stems from the ease of implementation of these interventions which are mostly short term or one-time investments. However, Bala (2018), remarked that mere provision of infrastructure alone does not have an impact on learning outcomes. Studies have highlighted that deeper and systemic issues related to education like curriculum development, gender inequality, capacity building and school culture improvement are low on the radar of CSR (Benty & Supriyanto, 2017; Prakash & Chandra, 2020).

A major reason for such skewed CSR focus can be attributed to poor stakeholder engagement. In education-related CSR interventions conscious association of stakeholders is critical (Hossain et al., 2020). Prakash & Chandra (2020) highlighted that corporates should take stakeholders into confidence and involve them in all stages of the CSR interventions to have a greater impact on education.

Importance of stakeholder engagement in CSR

Stakeholder engagement is crucial to CSR. Bowen et al. (2010) described stakeholder engagement as a subset of the CSR activities of a firm. According to Onkila (2011), stakeholder engagement in CSR essentially involves addressing stakeholder relationships through creating a framework for stakeholder participation in the CSR process. Stakeholder engagement can be viewed from a traditional and modern perspective. The traditional perspective of stakeholder participation was considered more transactional essentially involving communication (Donaldson and Preston, 1995). However, the current perspective is more holistic. Andrews et al., (2019) emphasised that stakeholder engagement was a process involving recognition, consultation, collaboration, discourse and interaction with stakeholders, which went beyond just dialogue and communication.

Stakeholder engagement provides a lot of benefits for CSR. It leads to greater public acceptance of the CSR activities leading to a higher likelihood of the interventions' success (Haddaway et al., 2017) and gaining social legitimacy (Watson et.al., 2018). Converting stakeholders needs into CSR policies and practices leads to a stakeholder-oriented concept of CSR implementation (Lamberg et al., 2003). According to Luu (2019), co-created CSR activities will help stakeholders feel good about the organisation and develop feelings of loyalty. Engaging with stakeholders through CSR may also provide hands-on training that can be particularly effective in building capacity across various communities (Blok et al., 2015).

Values perspectives in stakeholder engagement in CSR

In the traditional transaction-based perspective which mainly involved communication, Ansong (2017) contended that stakeholder engagement could be viewed as a morally neutral activity. Due to this stakeholder engagement could either be done legitimately or immorally. However, as the current views on stakeholder engagement in CSR are seen in terms of building stakeholder relationships, integration of human values becomes relevant and important. Adongo et al. (2019) in this context viewed stakeholder engagement as a commonly beneficial and acollaborative arrangement taking the form of a 'moral partnership of equals'. Values such as agreement, power-sharing, collaboration, transparency and participation play a crucial role in reinforcing trust and infusing confidence in the CSR process (Boadi et al, 2018). Osei-Kojo & Andrews (2020), while studying CSR interventions identified that, due to lack of human values in the engagement process, the commitment of stakeholders lacked genuineness. If the engagement has to be meaningful and achievable, stakeholders should be given an opportunity to express their opinion without being influenced by any group (Roloff, 2008). Watson et al., (2018) explained the importance of values integration in the stakeholder engagement process using the concept of 'value framing'. Value framing helps organizations manage the differences in the ways of seeing the world that exist among stakeholder groups. Instead of seeing these differences as unassailable conflicts or as opposing positions that have to be negotiated to a compromise, managers can empathize with the alternative value frames of their stakeholders, and harness these differences by using them to reframe the issues involved, combine competencies in new ways, and co-create innovative solutions. Human values thus play an important role in stakeholder engagement in CSR. Yet it has not received sufficient scholarly attention.

Taking inspiration from the philosophy of Bhagawan Sri Sathya Sai Baba, this paper attempts to highlight the important role played by human values in the stakeholder engagement process.

The paper also illustrates public sector CSR initiatives in education in India to show the importance of values integration in stakeholder engagement.

Constituents of stakeholder engagement in CSR

A review of stakeholder engagement literature depicts that engagement involves several constituents (adapted from Tomlinson & Parker, 2021) as depicted in Table 1

Table 1: Constituents of stakeholder engagement in CSR

Engagement phase	Engagement concept	Engagement activity	Reference
Phase 1 – Engagement purpose and roles	Vision	Understanding the purpose of engagement	Tomlinson & Parker (2021)
		Appreciating the purpose of engagement	Haddaway et al. (2017)
	Players	Identifying the stakeholders	O'Sullivan et al. (2020)
		Prioritising the stakeholders	Lane & Devin (2018)
		Creating interest in stakeholders	Gardner et al. (2009)
Phase 2 – Engagement enablers	Communication	Enabling Consultation and Dialogue	Watson et al. (2018)
		Facilitating information flows	Blok et al. (2015)
		Sharing knowledge	Rhodes et al. (2014)
	Collaboration	Developing partnerships	Bigas et al. (2007)
		Managing expectations	Gardner et al. (2009)
Phase 3 – Engagement barriers	Hindrance	Managing power imbalances	Blok et al. (2015); Haddaway et al. (2017)
		Managing conflicts	Blok et al. (2015)
		Managing Stakeholder bias	Haddaway et al. (2017)
Phase 4 – Engagement results	Outcomes	Accepting and legitimising the outcomes	Gardner et al. (2009)
		Reporting the outcomes	Ojasoo (2016)
		Evaluating the outcomes	Tomlinson & Parker (2021)
Phase 5 – Engagement benefits	Impact	Co-creating value	Rhodes et al. (2014); Watson et al. (2018)

Application of the Baba's human values philosophy in stakeholder engagement

Bhagavan Sri Sathya Sai Baba (referred to as Baba henceforth), who is venerated by millions as a foremost spiritual leader, has expounded a philosophy based on human values (for more information about Baba, the interested reader is referred to www.srisathyasai.org.in). The major human values as explicated by Baba include truth, right action, peace, love and non-violence (Baba, 1999-2010, vol. 19). The human values philosophy of Baba is quintessentially '*Sanathana Dharma'* (eternal human values) which are not restricted to any time, place or culture. Using intercultural theory, Reave (2005) showed that human values like respect, compassion, and appreciation go beyond the limitations of culture.

The philosophy propounded by Baba has found its applications in several projects and institutions which promote social welfare. These projects encompass a wide variety of areas like medical care, education, and social care. The uniqueness of these projects is that the benefits of all these projects are offered to all stakeholders without any discrimination and free of cost. This has resulted in the creation of a values-based institute of higher learning (Sri Sathya Sai Institute of Higher Learning), a super-speciality hospital and a water supply project, which helps a population of more than a million (Chaden, 2004). The institute of higher learning has the vision of imparting value-based education creating citizens who have the zeal to promote social welfare (Arweck & Nesbitt, 2007). It is interesting to note that alumni of Sri Sathya Sai Institute of Higher Learning have joined several public-sector institutions and they actively follow Baba's teachings in their workplace (Aitken, 2004). Using Baba's philosophy of human values, it is possible to understand the implications of the values in each phase of stakeholder engagement.

Values implications in engagement vision and roles

Stakeholder engagement starts with elucidating the purpose of engagement. Benty & Supriyanto (2017) reported how lack of clarity of vision among stakeholders led to failures of CSR interventions. Van Bommel (2011) highlighted the importance of shared vision in the stakeholder integration process. Having a shared purpose ensures that stakeholders understand their goals and manage their expectations accordingly. The human value most important at this phase is truth and integrity which is embedded in clarity of vision. Baba (1999-2010, vol. 42) in this regard stated the importance of having a clear and strong vision for superior social performance-

> *lesser strength (of vision) can only think in terms of subsidiary roles. To see the truth as truth, and the untruth as untruth, both clarity of vision and courage of vision are needed.*

ONGC, an Indian public sector enterprise in the field of oil and gas, states its CSR vision in clear terms as follows: "ONGC shall focus its CSR efforts towards bettering the lives of its surrounding communities by broadly addressing the focus areas of Education, Healthcare, Nutrition and Drinking Water. ONGC shall endeavour to understand the stakeholder expectations through a structured engagement process and communication strategy and shall leverage this understanding for the betterment of all the stakeholders" (ONGC, 2021). Based on this vision ONGC has supported 970 *Ekal Vidyalayas* (informal schools with a single teacher) in different parts of India with an objective to provide informal education to children who could not avail formal education due to various reasons.

Apart from the clarity of vision, stakeholder engagement is also dependent on the roles played by different stakeholders. For effective CSR practice, it is necessary to identify the stakeholders to engage with and also prioritise them. One of the important issues in stakeholder engagement is identification bias caused by purposive selection (Haddaway *et al.,* 2017). Purposive selection involves the identification and invitation of selected, often well-known stakeholders. This process potentially results in a biased selection of stakeholders. In the education scenario in India, school development and monitoring committees (SDMC) are constituted to improve the quality of schools. Such committees will be effective only when they are aware of their roles, responsibilities and are made active participants in CSR programs. Prakash & Chandra, (2020) lamented that SDMC members as stakeholders were nowhere in the picture while planning or executing CSR programs. Executives involved in CSR projects had not only not identified the correct stakeholders for engagement, but they had also prioritised them wrongly by giving NGO implementing partners higher priority compared to SDMC members.
Bias in stakeholder engagement can be mitigated by using a carefully planned, systematic approach to stakeholder engagement (Haddaway *et al.,* 2017). Using Baba's human values philosophy can help in appropriate stakeholder identification. Baba (1999-2010, vol. 29), in this regard clarifies using the analogy of selecting correct friends-

> *people should look into habits, behaviour, discipline before making alliances with anyone. Today friendship is made with all sorts of people. who will desert at any moment.*

Powergrid Corporation, a public sector undertaking with CSR activities in education is a good example of choosing and prioritising correct stakeholders for engagement. As per Powergrid CSR policy, preference is given to address the needs of the stakeholders, generally located in the neighbourhood of its areas of operation. Due to its nature of business, operating areas of Powergrid include remote and far-flung rural areas spread across the country and thus company's CSR initiatives include the rural population and marginalized communities as stakeholders (Powergrid, 2021).

Values implications in engagement enablers

Once the purpose of engagement is set and the roles are established, it is necessary to take advantage of enablers during the engagement process. The first of the enabling process mechanisms is communication. According to Gould (2012), stakeholder engagement requires information sharing and interaction among stakeholders. This involves information flows in both directions, namely both information from stakeholders into the organization and information out of the organization to the stakeholders. Ali *et al.,* (2002) observed that the tendency to hold on to information rather than share it would inhibit social learning by preventing its transfer to other stakeholders. Withholding of information may hinder or even prevent stakeholders from developing a knowledge foundation from which new knowledge can be generated. The human values implication in information sharing is understanding and promotion for the welfare of everyone involved. Baba (1999-2010, vol. 14 and 2003) stresses the need for promoting welfare by stating–

> *Communicate your experience to others, and also your ideas…a person's very basic duty is the welfare of all beings. Promoting it and contributing to it is the right task. Living one's life in discharging this task should be the goal.*

National thermal power corporation (NTPC), a public sector enterprise in India has taken much effort to promote information flows in stakeholder engagement and CSR. NTPC has a CSR policy that states that the company is interested in instilling confidence in stakeholders through effective communication (NTPC, 2019). Additionally, an effort is made in the company through workshops, training, news bulletins, brochures, and intranet to create awareness about CSR initiatives, among internal stakeholders. As a part of its CSR activities, the company is running 48 schools managed by premier academic societies in the vicinity of its projects, benefitting close to 40000 students.

Another enabling aspect of stakeholder engagement is collaboration. Lane & Devin (2018) stated that collaboration positively contributes to the enhancement of stakeholder relationships and involves incorporating stakeholder inputs into organizational decision-making. The human values implication in collaboration are unity, cooperation, understanding and empathy Watson *et al.,* (2018) pointed that through collaboration, firms empathize with the alternative value frames of stakeholders and harness these differences to co-create innovative solutions. Baba's values philosophy exhorts in this regard (Baba,1999-2010, vol. 29)-

> *work for the development of society with mutual cooperation and understanding without giving room to any differences. Develop the qualities of empathy, unity and broad-mindedness.*

State Bank of India has exemplified collaboration in its CSR through its SBI Youth for India (SBI YFI), a unique rural development fellowship program funded and managed by the SBI Foundation in partnership with reputed NGOs of the country. The fellowship provides a framework for India's bright young minds to join hands with rural communities, empathize with their struggles and connect with their aspirations. The selected fellows, from some of the top institutes/corporates, work with experienced NGOs on challenging development projects. The initiative provides avenues for the youth to become aware of the ground realities and presents them with an opportunity to contribute through their efforts towards building strong cohesive communities. The fellowship offers them an opportunity to work across many areas of interest namely, health and sanitation, livelihood, education, women empowerment and many more. The 13-month long program allows the fellows to travel the length and breadth of the country and make a difference at a grass-root level. It aims at generating the interest of the educated youth towards the social sector and inculcates a spirit of social entrepreneurship within them (Thacker, 2021).

Values implications in engagement barriers

While enablers assist in the process of stakeholder engagement, barriers hinder the process. This includes power imbalances, conflicts and bias. Blok *et al.,* (2015) highlighted that a critical issue with regard to stakeholder engagement is the existence of power imbalances among stakeholders. Power imbalances are an important reason for conflicts among stakeholders. Stakeholders are unwilling to interact when they have the feeling that they have less or no power compared with other actors involved. Krishna & Bisht (2021) showed that CSR agreements involving education grants are drafted with unequal power dynamics, which manifests in the form of unfavourable conditions. Baba (1999-2010, vol. 21) cautions against the misuse of power –

> *no one should misuse any of the powers they have. It amounts to an affront to the Divine which is the source of all powers.*

The values remedy against power imbalances and stakeholder conflicts is transparency. Bharat Petroleum Corporation Limited (BPCL), a public sector giant in India, states its CSR philosophy as follows: to ensure fairness to the stakeholders through transparency, full disclosures, empowerment of stakeholders and collective decision making. BPCL's flagship project 'Computer Assisted Learning (CAL)' promotes education through digital literacy for students in low-income schools. Since its inception, the project has benefitted more than 100 thousand children. 'Saksham' is another flagship project of BPCL for teacher and school leader training which was started to empower and motivate teachers and principals from schools in partnership with Pratham Infotech Foundation. The project aims to impact not only individual classrooms but the entire school environment. More than 700 teachers and headmasters from 305 schools graduated from this program. Needless to say, BPCL is completely transparent about these programs with the stakeholders (BPCL, 2018).

Values implications in engagement results

Stakeholder engagement must result in CSR outcomes. Outcomes need to be accepted by stakeholders to obtain legitimacy. Later they need to be reported and evaluated. For outcomes to be acceptable they need to be equitable (Gardner *et al.,* 2009). Therefore, the perspective of the human values related to engagement results is love and fairness. Baba (1999-2010, vol. 13) states that

> *when fairness is the basis of any engagement, there will be equitable distribution of benefits, resulting in peace and promotion of love.*

Gas Authority of India (GAIL), a public sector enterprise in India has equity rooted in its culture. This is evident by the responsibility, accountability, consistency, fairness and transparency the company maintains towards its stakeholders (GAIL, 2019). The company's initiative, 'Project Avant', which covers 105 schools, focuses on improving the learning level in Maths and Science of children in upper primary classes. The results of the project are so fair and equitable that it has triggered reverse migration from private run costly schools to government-run subsidised schools.

Values implications in engagement impact

Ultimately, stakeholder engagement in CSR must have a sustainable impact. Saha *et al.,* (2020) described that despite CSR being mandatory in India, in several instances, the impact of CSR is yet to achieve sustainable development in the country. To create sustainable impact, co-creation of value is essential (Rhodes *et al.,* 2014; Ansu-Mensah *et al.,* 2021). All the human values mentioned in the previous phases including truth, integrity, unity, cooperation, understanding, empathy, transparency and fairness are needed for co-creating value. Baba (1999-2010, vol. 26) explains the truecreative nature of humans derived from their inherent divine characteristics-

> *divinity and humanity are not different. The same constituents are there in both. In fact, there is only one Supreme Power which manifests itself in multitudes of forms. Humans are embodiments of the three phases of time (past, present and future) and the three powers of creation, preservation and dissolution.*

Humans have inherent co-creating abilities due to the values present in them. Promoting human values in stakeholder engagement can logically lead to co-creating value for all involved.
Coal India (CIL), a premier public sector undertaking, believes in co-creating value for the nation. has implemented several processes for the co-creation of value (CIL, 2021). Its CSR policy document explicates the process of co-creation:

> *CIL fulfills the aspiration of the society through well-defined "Community Development Policy" which has resulted into a harmonious relationship between CIL and the peripheral communities. Mines of CIL and its subsidiaries are located in different parts of the country in relatively isolated areas. Introduction of any production activity in such areas changes the traditional lifestyle of the original inhabitants and indigenous communities and also changes the socio-economic profile of the area. Hence, the primary beneficiaries of CSR activities are those staying within the radius of 25 kilometers (16 miles) of the coal mining projects. CIL and subsidiaries ensure that the maximum benefit of their CSR activities goes to the underprivileged sections of the society.*

Through its CSR process, CIL thus works towards co-creating of value. Integration of human values will thus enhance the quality of each phase of the stakeholder engagement process.

A values-based holistic framework for stakeholder engagement in CSR

In the previous section illustrations from public sector undertakings in CSR in education were provided regarding stakeholder engagement. Integration of human values can make stakeholder engagement holistic providing benefits to all those involved. Table 2 summarises the holistic value-based framework The integration of human values in stakeholder engagement leads to holistic CSR benefits. This will lead to enthusiastic participation by all stakeholders and all-around development.

Table 2: A values-based holistic framework for stakeholder engagement in CSR

Engagement phase	**Engagement concept**	**Engagement activity**	**Human Values integration**	**Added holistic benefit**
Phase 1 – Engagement purpose and roles	Vision	Understanding the purpose Appreciating the purpose of engagement	Truth and integrity	Clarity of CSR vision and better acceptance
	Players	Identifying the stakeholders Prioritising the stakeholders Creating interest in stakeholders	Discipline and character	True and relevant stakeholders who will be loyal to the CSR process
Phase 2 – Engagement enablers	Communication	Enabling Consultation and Dialogue Facilitating information flows Sharing knowledge	Understanding	Promotion of welfare of all involved, peaceful participation
	Collaboration	Developing partnerships Managing expectations	Cooperation, unity and empathy	
Phase 3 – Engagement barriers	Hindrance	Managing power imbalances Managing conflicts Managing Stakeholder bias	Transparency	Avoidance of misuse of power, empowerment and collective decision making
Phase 4 – Engagement results	Outcomes	Accepting and legitimising the outcomes Reporting the outcomes Evaluating the outcomes	Fairness and equity	Equitable distribution of benefits
Phase 5 – Engagement benefits	Impact	Co-creating value	All the human values mentioned	Overall welfare and development

Conclusion

Stakeholder engagement is a vital aspect for the success of CSR. Rather than being transactional, if the engagement is rooted in human values, it becomes holistic. As seen from the illustrations of Indian public sector undertakings, holistic engagement can provide benefits not only to the stakeholders involved but to the larger community and society. Ultimately this can lead to overall welfare as stressed by Baba (1999-2010, vol. 36) -

> *Samastha Lokah Sukhino Bhavanthu (Let everybody in every place be happy and prosperous).*

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Decentralisation of Public Enterprises in federal countries

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Abstract

To bring concepts and knowledge to bear more effectively on policy analysis and programme design, a framework for analysis is needed that focuses on alternatives for organising and financing the State Owned Enterprises (SOEs). Whether the motivating force behind organisation of SOEs is political or economic, a developing country situation demands that the strategy be looked at from the perspective of the provision of the people's needs. The paper looks at the forms of SOEs and the relevance of fiscal federalism in this context. Past experience has some lessons and a flawed policy can have unwelcome consequences. Keeping in view the different initial conditions, strategies need to be devised for organisation of SOEs.

KEYWORDS: decentralisation; state owned enterprises; supply efficiency; public enterprises

Introduction

The existing research on State Owned Enterprises (SOEs) has tended to view state ownership in black-and-white terms— that is, a firm is either state owned or it is not. Without looking at which government owns the SOE. Moreover, the ideological nature of the debate on state ownership has resulted in the difficulties of incorporating SOEs into (mainstream) theories of the firm (Brutch et al., 2015). Some work has framed the debate as socialism versus capitalism, which may have made it more difficult in terms of theory and ideology for the scholars to highlight the differences between SOEs owned by national and sub-national governments. This research aims to fill this gap. It is commonly assumed that the democratic countries are more decentralised. There are exceptions though: former Socialist Republic of Yugoslavia was far more decentralised than France. With the advance of democracy across the world it is time to consider the working of SOEs of national governments and those of sub-national governments.

There is a consensus that SOEs are quite different from private enterprises, not just in ownership but also in the way they manage their finances and human resources (Chhibber & Gupta, 2019; Kresl,2019; Varghese & Jabamala, 2019). Compared to a regular enterprise, state-owned enterprises are typically expected to be less efficient due to political interference, but unlike profit-driven enterprises they are more likely to focus on public objectives (Schliefer & Vishny, 1994). When the colonies gained independence the public objectives were very clear: economic growth and provision of basic needs. That used to be the focus of politics and public administration in developing countries before fashionable words like entitlements, capabilities, functionings and empowerment diverted their attention. Of late, with the decentralisation drum rolling on, scholars in the field of public administration and the people in the trenches in the fight against poverty have a tough time deciding their strategy. Who is responsible for provision of basic needs: the markets; the government at some level – national, regional or local, a parastatal at some level or none of these?

Decentralisation

With the centralised state losing legitimacy after the decline and fall of the Soviet Union, suddenly decentralisation seemed to be the latest fashion in the matters of governance in general including ownership of SOEs. The potential (or imagined) benefits of decentralisation attracted all kinds of supporters under its large tent including free-market economists with suspicion of the SOEs to those who believe in pervasiveness of market failure including anarcho-communitarians like postmodernists, multiculturalists, environmentalists and activists for various causes. This sudden love for decentralisation can be attributed to the fact that decentralisation appeared to be crucial to the dual political transition that in the 1990's had become imperative for the developing and post-communist world: promotion of institutions to bring efficiency to the market and bolstering fledgling democratic experiments. The World Bank embraced decentralisation as a major governance reform on its agenda. International agencies have not hesitated in including decentralisation as conditionality in their projects.

The reality of decentralisation turned out to be quite different from that imagined by its advocates. Under the rubric of decentralisation, steps were taken which satisfied a political agenda to the detriment of public administration:

1. In much of Africa, local governments were created but given neither power nor responsibility for SOEs. This move is often explained as an attempt by bankrupt central governments to create a new target for political dissatisfaction without relinquishing real power.
2. In the middle income countries of Latin America, central governments have transferred resources and responsibilities for some SOEs to the sub-national

governments. This arrangement has been explained as an attempt to 'buy off' a growing number of disaffected local political constituents.

3. In the Eastern Europe, inefficient SOEs have been given over to sub-national governments; a move explained as a hasty effort by newly victorious political forces to consolidate their positions at the local level, complimented by an effort by the central governments to 'push the deficit down'.

Inevitably, this has meant a lot of back-tracking and false starts, especially in Latin America, which does not have low average incomes, but continues to be the most unequal region in the world. Countries like Perú have become examples of how not to reorganise SOEs (Kim, 1992).

Decentralisation literature usually recommends the transfer of powers and responsibilities from the national to sub-national governments. Political arguments in favour of such transfer are strong as militaristic dictatorial regimes tend to centralise power. However, this is a simplistic view. Often military dictatorships and other autocrats have devolved powers to local governments. This in turn weakens regional (provincial or state) governments, incapacitating them to pose any challenge to the central leadership. In Pakistan whenever the Military takes power, attempt is made to increase decentralisation at district level.

Decentralisation is also viewed as a mechanism for controlling the size of the public sector. From this perspective, government sector is viewed as a Leviathan that seeks its own aggrandisement through maximising the extraction of tax revenues from the populace. Decentralisation places constraints on the Leviathan to channel resources to itself. In some international organisations pushing structural adjustment and transitional reform, decentralisation has often been used in the same breath as privatisation (Bardhan, 2002).

Relevance of fiscal federalism

While decentralisation of administrative authority is comparatively simple, decentralisation of finances is somewhat complex. Figure 1 shows the various routes to decentralisation in the context of financing of needs of the communities.

There is a large body of literature on decentralisation in public economics, often referred to as fiscal federalism. The theory of fiscal federalism has evolved in western democracies to understand the emerging fiscal problems created by progressive national integration of economic systems within a decentralised political structure. When the role of the government ceased to be merely protective, the ‘social’ state emerged and more government services became available to citizens to fulfil their needs, the discrepancies between the capacities and needs of the subordinate units of governments became glaring. This development caused some students to view the federal political structure as anachronistic and anti-democratic (Nichols, 1942).

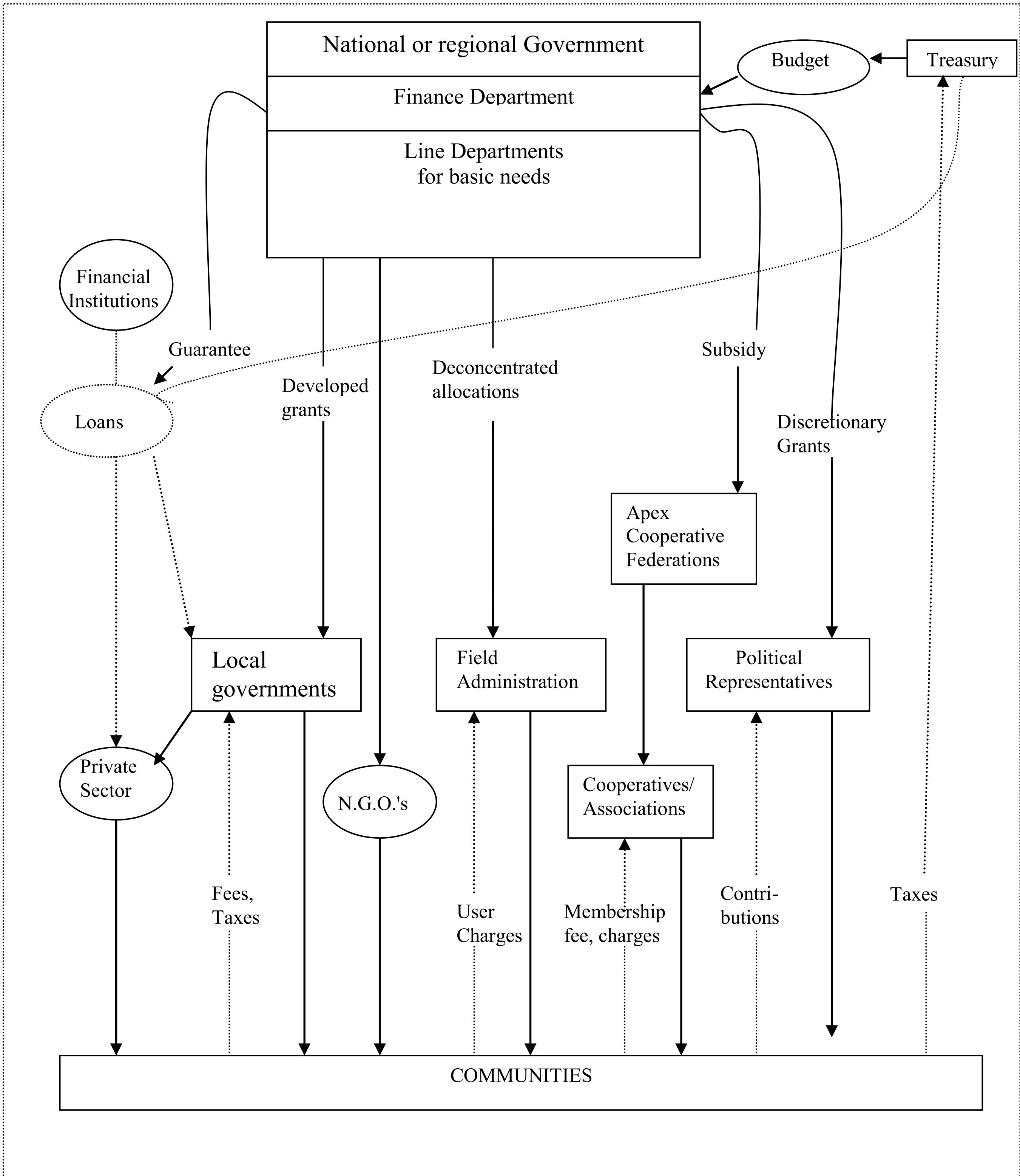

Figure 1. Financing of Basic Needs and Economic development in developing countries

It was argued that federal polity had outlived its usefulness and the conditions which made it necessary in the process of development no longer prevailed (Greenwood, 1946). But political centralisation was not desirable in view of the strong federal spirit prevailing in countries like the United States and Australia. The challenge was to formulate a theory and policy proposals that could integrate the economy presuming a political structure that was decentralised in the power sense. This was initiated by Buchanan (1950) and carried forward by Oates (1972, 2006) and others. This theory contends that the decentralised levels of government have their *razón de ser* in provision of goods and services whose consumption is limited to their own jurisdiction directly or through SOEs.

Thus the case for decentralisation is often based on allocative efficiency in public administration. Because tastes and preferences for public services vary among communities (and the costs of providing these services may also vary from one place to another), welfare gains are achieved by decentralising decisions relating to SOEs to the level of government that best incorporates a community of common interests. Validity of this conclusion in a developing country situation is open to question. The traditional approach to development in political science, law and economics sees developing societies as incomplete versions of developed ones, lacking some essential ingredients of mature developed societies. Democrats, legal scholars and economists recommend that new institutions and policies be transplanted from developed societies into developing ones (Weingast, 2009). Yet, the theories of fiscal federalism evolved in western democracies may have doubtful relevance to developing countries. As Diana Conyers (1990) warns most developing countries inherited relatively centralised systems of government from their colonial powers, and in the first years of independence there was often a tendency to strengthen central control in order to encourage national unity and discourage fissiparous tendencies. These countries have not experienced the process of evolution from the town hall up to the national government experienced in industrial countries. The implication of decentralisation from national governments to sub-national governments in developing countries must be evaluated in terms of specific circumstances of each country. The argument that the inhabitants of different jurisdiction have different tastes is questionable in developing countries where basic needs, which are quite well known, are yet to be met.

Decentralisation of SOEs, public policy and supply efficiency

Contrary to optimism shown by the World Bank (e.g., Huther & Shah, 1998), empirical studies show no improvement when SOEs are decentralised. Akin et al. (2005) analyse a database of Ugandan health system and find that local government SOEs in the health sector are starved of funds as the local governments increasing expenditure towards publicly financed private goods.

It is widely recognised that the SOEs in developing countries need to be more efficient in terms of optimisation of limited resources as also more focussed on the public needs. For example, inefficiency and corruption in Food Corporation of India and State Civil Supplies Corporations has led to widespread malnutrition among the poor in India. While the standard decentralisation model says little about supply efficiency, the assumption is that as an organising principle, decentralisation brings the government closer to the people and makes the leadership accountable to the people thereby increasing efficiency. Few empirical studies are available with comparison of efficiency with robust statistical analysis. Most of the available studies show that the supply efficiency declining with decentralisation.

Reasons for poor performance of sub-national SOEs

One obvious reason for poor performance of sub-national the inevitable diseconomies of scale. Perhaps the even more important reason for inefficiency is the human factor. In terms of provision of water SOEs, the World Bank (1990) hailed it as a desirable trend as it brings the level of responsibility closer to the user. Yet, even this protagonist of decentralisation noted that the water SOEs in more than 400 urban centres of less than 100,000 inhabitants in Perú do not have the economies of scale in operations, and are unable to offer attractive working conditions and vocational training to qualified personnel and to plan and run operations at a satisfactory level. Presciently, it predicted the next two or three years, it is likely that response capacity of the new sector will worsen. On the other hand, in case of Tunisia, the steady improvement occurred after centralisation of water and sanitation services to national level SOE due to streamlining of vocational training and formation of a competent cadre of technical professionals (Khellaf, 1992).

Technocrats in developing country SOEs are likely to operate quite far from technical production frontier; and it is likely that the sub-national level technocracy will be farther away. Technical and administrative services of national SOEs offer better careers, greater diversity of tasks and comparatively less political interference. They can invest in research and development, training and other measures of long term growth, something that the small sub-national SOEs cannot do (Asthana, 2013). The professionals working with the local SOEs suffer from isolation and low level of interaction with other professionals. Local SOEs can neither attract the best talent nor acquire the technical skills of technocrats available to higher level SOEs.

Another reason for lower level of supply efficiency is high level of corruption in lower levels of governments. Decentralisation of corruption could be viewed as a desirable trend in that it may have redistributive effects. There is reason to believe that the level of corruption at the local level is much higher and offsets the probable beneficial redistributive effects of decentralisation of corruption. The local politicians and bureaucrats, the distinction between them is less rigorous, are likely to be more subject to pressing demands from local interest groups with whom they develop unethical relationships. They view their SOEs as a source of personal aggrandisement. Monitoring and auditing are lax at the local level and there are fewer obstacles to corruption.

Conclusion

Any strategy relating to SOEs needs to consider which level of government is likely to be more sensitive to provision of people's needs and more efficient in supplying them. Forms of ownership of SOEs including hybrid ownership and joint provisioning need to be clearly understood. There are common lessons to be learned; yet, every country situation is unique. Cultural and historical conditions differ and the governments' readiness to act on specific SOE issues varies. In view of the variety of initial conditions existing in different countries, the strategy for reorganisation of SOEs needs to be custom tailored; keeping in mind how such a strategy affects financing and provisioning of the people's needs.

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Privatisation of Central Public Sector Enterprises in India

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Abstract

This paper investigates the different phases of reform state owned enterprises (SOEs) that India had been experience since the beginning of reform and analyses the policy objectives behind the policy of SOEs reforms introduced. Having evaluated the policy objectives based on various source the paper seeks to find the degree to which the objectives have been achieved and had an impact on the performance of SOEs. The paper finds three different phases of privatisation with different objectives and that the of performance of SOEs during these phases have been different. The analysis of performances of SOEs in different phases leads to questioning of the need for privatisation and speculation as to whether the actual objective behind the overall privatisation process is to generate revenue to cut the government fiscal deficit.

KEYWORDS: Privatisation, state owned enterprises, CPSE, Memorandum of Understanding

Introduction

In the recent economic history of the world, public sector has been an inalienable part of any nation’s economic development process. The process began with setting up of enterprises of natural monopolies in the ‘core industries’. The reasons for setting up the public sector was to create the necessary infrastructure for rapid economic growth, balanced regional development, entrepreneurial leadership and employment generation. The Indian experience was no different. The Central Public Sector Enterprises (CPSEs), which are also called Public Sector Enterprises (PSEs), Public Sector Undertakings (PSUs) or more generally State Owned Enterprise (SOEs), have been endowed with an important role and constitutes a major portion of the public sector. The first CPSE came into existence in 1950 and the number kept growing. In 2020 there were a total of 366 CPSEs (GOI, 2021).

With the rise of the neoliberal paradigm in the 1980s, state involvement in economic affairs was challenged and the privatisation of state-owned firms moved to the top of political agenda of many a western democracy. However, there were significant cross-national differences, both in the historic involvement in business affairs and in the degree to which governments retreated from entrepreneurial activities. In India was no exception to this movement, but it began with a slow start. India first looked at internal reforms: deregulation and Memorandum of Understanding (MoU) during the 1980s with the objective of enlarging competition and allowing new firms to enter the markets. Eventually, it started to reform extensively from 1991 onwards with de-reserving the industries for PSUs (Public Sector Undertakings) from 17 to 8 areas and disinvestment of SOEs as dominant aspects of reform.

Public Sector in India could take three organisation forms: departmental enterprises, statutory corporations and joint-stock companies (Iyer, 1991). Department enterprises are entity or unincorporated enterprise which are owned and controlled by public authorities. Examples are the Railways, the Department of Posts. These enterprises do not come under the SOEs or PSEs. SOEs are inclusive of statutory corporations, constituted under specific status of the Indian parliament and those established by the Government of India as government companies where government equity holding is more than 50 per cent. The largest number of SOEs belongs to the second category. A centralised coordinating unit for continuous appraisal of the performance of public enterprises was set up as a Bureau of Public Enterprises in 1965. Eventually, in May 1990, the bureau was turned into a full-fledged department, known as the Department of Public Enterprises (DPE), under the Ministry of Heavy Industries & Public Enterprises. Recently, DPE has been transferred to the Ministry of Finance.

The influence of politics on SOEs is much deeper in India's case. The influence is not limited to the United Progressive Alliance (UPA) led by Indian National Congress and National Democratic Alliance (NDA) led by Bhartiya Janata Party governments in the centre but extends to various regional parties involved in the democratic process with varying strength. As has been found by Dinc & Gupta (2011) the profitable firms and firms with lower wage bill were more prone to privatisation with the government delaying privatisation in regions where the governing party faces more competition from opposition parties. This is done to avoid loss of popularity of a particular political party or government (Gupta, 1996).

The issues of performance of SOEs and the need for privatisation has created much debate. The broad theme behind this paper is to outline how SOEs have been performing and analyse the various policy reform and its implication on the performance of SOEs. It has been argued that sub-national level SOEs are more inefficient and corrupt than the national level SOEs (e.g., Asthana, 2013; Bou, 2021). This paper avoids this issue and concentrates on CPSEs.

Rationale for Reform and Disinvestment

The debate on CPSE disinvestments in India as elsewhere straddles political and economic spheres. Several eminent scholars in papers (mainly in left wing journals like *Economic and Political Weekly*) have been arguing that performance of CPSEs has been good. Nagaraj (1991) on the basis of the National Accounts Statistics data concludes that the profitability of SOEs (gross profit as a proportion of total capital employed), for the period increased from around 8 per cent in 1980-81 to about 13 per cent during the end of the 1980s. However, the study by Joshi & Little (1996) and Mohan (1996) had a different take. They focused on the performance of SOEs in terms of return on investment and find that from 1976-77 to 1986-87, the returns to investment in public sector manufacturing have been as low as 3-5 per cent, whereas private sector manufacturing was 17-23 per cent.

One of the frequently stated reasons is the incentives factors which are poor in the case of SOEs. However, there is no shortage of incentives for politician, through their affiliation, there is common sight to see, an over-manning for the purpose of vote bank (Bagchi, 1999). The reforms in MoU system have been trying to overcome the incentive problem through the introduction of 'performance incentive system'. One of the proposal made for India was the performance related pay (PRP) which could reduce, if not solve the problem. Another problem commonly associated to SOEs is the principal-agent problem (Tandon, 1995). But this problem is not just limited to SOEs. Given the shape and the nature of new form of enterprise or large corporation is taking, the problem is common in both public and private.

According to critics, disinvestment has nothing to do with the performance of the public enterprises. Rather the objective was wholly focused on generating revenue by selling the these units to various financial institutions, cross holding by other well performing SOEs, and inviting NRI and foreign investors through GDR. The final objective of protecting employees' interest was only a decorative item in the list. According to *The Economic and Political Weekly,* the only purpose it serves is "to disarm a section of the critics" (EPW Editorial, 2009). But more pertinent question was- Is there really a shortage of funds? Despite these failures, the overall performances of SOEs have been good and this could greatly be contributed to reforms initiated in the marketisation process.

Table 1 gives a picture of performance of CPSEs from the year 1981-82 to 1990-91. In 1981-82, there were 188 PSEs out of which 104 were profit-making, 83 loss-making and 1 making no profit or loss. The situation did not change much even for the 1990-91 with the total number of enterprises at 236 out of which 124 were profit-making, 109 were loss-making enterprises and 3 making no profit and loss. The Table also shows the profit of profit-making enterprise increasing accompanied by the losses of loss-making enterprises also increasing (in real terms).

The gross margin or return on investment to national economy (which does not consider the element of depreciation, interest, tax, dividend, etc.) shows an impressive increase in 1981-82. But simultaneously, there has been equal increase in the capital employed during this period, thereby giving a better picture about the return of investment to the economy vis a vis the ratio of gross margins to capital. It was 18.29 per cent in 1981-82 but by the end of 1990-91 the ratio slid to 18.20 per cent, indicating a very marginal dip on the return on investment. The gross profit, which considers the depreciation, amortisation and deferred revenue expenditure written off but not the interest and tax, also show similar trend like the gross margin. Pre-tax profit, which is a very good source of revenue for the government, shows a very steady increase in profit margin since 1981-82. Similarly, the net-profit has an increasing trend and ration of net-profit to capital employed or net return on investment has increased from 2.03 per cent in 1981-82 to 2.33 per cent in 1990-91.

Table 1: Profitability Profile of Public Enterprises (INR in million at constant price with base year 2004-05)

	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	19889-90	1990-91
No. of operating Enterprises	188	193	201	207	211	214	220	226	233	236
i. Profitable Enterprises	104	109	108	113	119	108	114	117	131	124
ii. Loss-Making Enterprises	83	82	92	92	90	100	103	106	98	109
iii. Enterprises making no profit nor loss	1	2	1	2	2	6	3	3	4	3
Capital employed	1154747	1286531	1334978	1506198	1658087	1871520	1833967	2579925	2376837	2577654
Gross Margin	211208	251428	123923	305777	319152	357335	365428	499549	460225	469139
Gross Profit	139717	168007	159476	191597	204034	235443	228846	323313	297862	287870
Interest	85810	93267	93289	104699	120213	123480	118281	162204	149436	191077
Pre-tax Profit/Loss	53907	74740	66188	86898	83821	111963	110565	161108	148426	96819
Tax	30481	45009	55410	49265	38592	47984	43626	45779	42175	36801
Net Profit/Loss	23427	29731	10778	37632	45229	63979	66939	115330	106251	60017
Profit of profit making SOEs	68069	77407	79515	83668	110256	125574	124480	175049	161269	137675
Loss of loss making SOEs	44642	47676	68737	46036	65027	61596	57838	59719	55018	77658
Dividends	5738	5578	5948	7286	7371	10723	10552	9831	9058	9251
Retained Profit	17688	24153	4830	30346	37858	53255	56387	105498	97193	50766
Gross margin to capital employed	18.29%	19.54%	19.33%	20.30%	19.25%	19.09%	19.93%	19.87%	19.36%	18.20%
Gross profit to capital employed	12.10%	13.06%	11.94%	12.72%	12.31%	12.58%	12.48%	12.68%	12.53%	11.17%
Net profit to capital employed	2.03%	2.31%	0.80%	2.50%	2.73%	3.43%	3.65%	4.43%	4.47%	2.33%
GDP deflator	0.1900	0.2062	0.2236	0.2415	0.2591	0.2770	0.3033	0.3285	0.3566	0.3946

Source: Various Public Enterprise Surveys compiled into real value using GDP Deflator

Therefore, the profitability of PSEs since 1981-82 in terms of ratio of gross margins and gross profits to 'capital employed' had not improved over the last 9 years. In fact, it decreased by 1990-91. But the ratio of net-profit to 'capital employed' gives some relief with its improved performance. Although the overall performance is lower than private enterprises, in some cases, the performance varies widely in terms of profitability ratios comparable to private enterprises (GOI, 1993).

The first phase of reforms began in 1986 with the introduction of the MoU system. The introduction of a new economic policy (NEP) in 1991 marks the second phase, with the process of disinvestment of government shareholding in SOEs. This phase is known for sale of minority shareholding of SOEs. The third phase begins from 1999, when the policy shifted from sale of minority shares to majority shares. It was also called "strategic sale". It was during this phase that the sale of large blocks of shares in SOEs were made along with transfer of managerial right to private entity or institutions. The last phase covered in this paper began in 2004 with the reversal of strategic sale and revival of minority share sales. Since 2015, once again there is enthusiasm for privatisation but the results are not very significant.

Memoranda of Understanding

The first phase of reform in CPSEs (1986-91) was development of MoUs to address the immense pressure on the government's fiscal management due to falling profitability and accumulating losses. The common reasons quoted were the problem of "multiple principals" (Gunasekar & Sarkar, 2014; Kaur, 2004) with "multiple goals" (Trivedi, 2005). It was decided to tackle these problems through introduction of a managerial contract system based on three financial parameters to regulate the control-freedom interaction between the government and SOEs: price fixation, investment planning and financial management. Based on the French system (where it had originated), was a five-year agreement was drawn up and reviewed every year.

At the beginning the MoU was only experimented only on selected SOEs in the core sectors i.e., steel, coal, power, petroleum, fertilizer and petro-chemicals (Trivedi, 1990). This system may be best put as "essentially a system of management audit" (Depart of Public Enterprises, 2012). Therefore, it did not investigate setting new objectives or restructuring the whole SOEs system functionality but was more concerned in solving the problem of information or principal agent problem and specifying the target objectives.

In 1990, the old 'performance contract' was changed to a new performance evaluation system closer to a signalling system. This system was based on an annual target agreed upon between the government and the CPSEs, rather than the five-year target. The evaluation under the new system was done in "five point scale" and "criteria weight", which ultimately results in calculation of "composite score" or an index of the performance of the enterprise. The number of SOEs under MoU increased substantially. The continuous re-arrangement of the MoU system developed an enforcing mechanism. Also, the third party evaluation, Task Force and

High Power Committee, claimed to ensure "fairness" and "equality" in the process of negotiation and implementation of MOUs (Department of Public Enterprises, 2000).
Later the performance evaluation was changed by allocating weightages to “financial parameters” and “non-financial parameters” under the “Balance Score Card” approach.

India’s National Council of Applied Economic Research (NCAER) report of 2004 compared the performance of SOEs in the pre- and the post reform period, ranging over a period of 1986-87 to 1992-93 (NCAER, 2004). The positive impact that the MoU system has had on SOEs performance as reported by NCAER is generally accepted by scholars in this area. Mohan (2005) and Trivedi (1990) have been critical about the choice issues related to parameters, methodological issues, implementing, autonomy and problems related to the weight attached to the parameters. But most of these issues have been resolved over different stages of MoUs development.

The NCAER study consists of two important aspects; first, it has comparison of Total Factor Productivity (TFP) pre-and post- MoU periods and then a comparison of financial performance pre- and post MoU periods. The study concludes that the TFP analysis proves that the MoU system did not have a significant impact on the overall efficiency of the SOEs, but the financial performance in the pre and post MoU period at constant price has shown significant improvement.

The impact on MoU is evident from the fact that in the year 1986-87, there were 8 companies with ‘fair and poor’ status and only 2 with ‘excellent and very good’ status. In the following period, substantial improvements in the performance of SOEs can be noticed. After the first three years, the number of ‘excellent and very good’ PSEs increased and the number of companies under the ‘fair and poor’ category came down to 5. Finally, in the final phase of year 1992-93 (after six years), one can see substantial improvement compared to the 1986-87 phase. The number of ‘excellent and very good’ companies also drastically increased to seven and ‘fair and poor’ companies also improved its performance marginally. This data gives enough evidence to conclude that the MoU system had a great impact on the performance of SOEs even though it is not inclusive of all the factors, which would grade the MoU system to be an efficient one. Therefore, the hypothesis that the MoU system played an important role as a financial performance-enhancing instrument to the SOEs seems validated here.

The overall comparative study of the performance of pre and post MoU system with TFP as a core indicator for the measurement of efficiency level of SOEs A comparison of pre and post MoU performance of the enterprises/syndicates were done. The Total Factor Productivity Index (TFPI) was based on the Translog Production Function and the Total Factor Productivity Growth (TFPG) was estimated eventually on the Average Annual Growth Rate (AAGR) of productivity in the pre and post MoU period was calculated (NCAER, 2004). results show little empirical justification for a general presumption in favour of MoUs improving productivity” (NCAER, 2004).

The study also gives two reasons for such results. One, the performance indicators of MoUs is just financial in nature and financial indicators are not the only factor for measuring productivity. Second, the timing of the introduction of the NEP of 1991 also has had an impact. The NEP came with huge structural changes in terms of de-reservation (Ahluwalia, 2002) and deregulation (Goyal, 2001) in the economy beside the liberalisation policy and the MoU was made mandatory to 72 SOEs (Gunasekar & Sarkar, 2014; Mathur & Mathur, 2010). These policies have a great bearing on the nature of environment under which the SOEs were functioning because of which the profitability under the new competitive environment has come down e.g., SAIL (Naib, 2003). This makes the comparison of pre- and post- economic reform of 1991, done in NCAER (2004), not very credible to state the influence of MoU. Besides, it must also be understood that the very idea of measuring TFP has many methodological issue or there isn't a uniform method to measure TFP.

The overall performance of SOEs under the system of "five point scale" and "criteria weight" ultimately resulted in the calculation of "composite score" or an index of the performance of the enterprise, including both financial and non-financial indicators. Furthermore, the NIP of 1991 gave a great thrust to the MoU system; it stated that the "technical expertise on the part of the Government would be upgraded to make the MoU negotiations and implementation more effective".

The performance rating of SOEs in Figure 1 helps understand their performance under the MoU system. The performance of SOEs has changed dramatically since 1990-91.
In 1990-91, with only 23 companies under the MoU system, 14 companies (60.87%) had performed excellently and only one company received the 'Poor' status, which is a testimony of great progress. Also, in the following years, the number of SOEs under the MoU system increased manifold without a dip in the performance of SOEs.

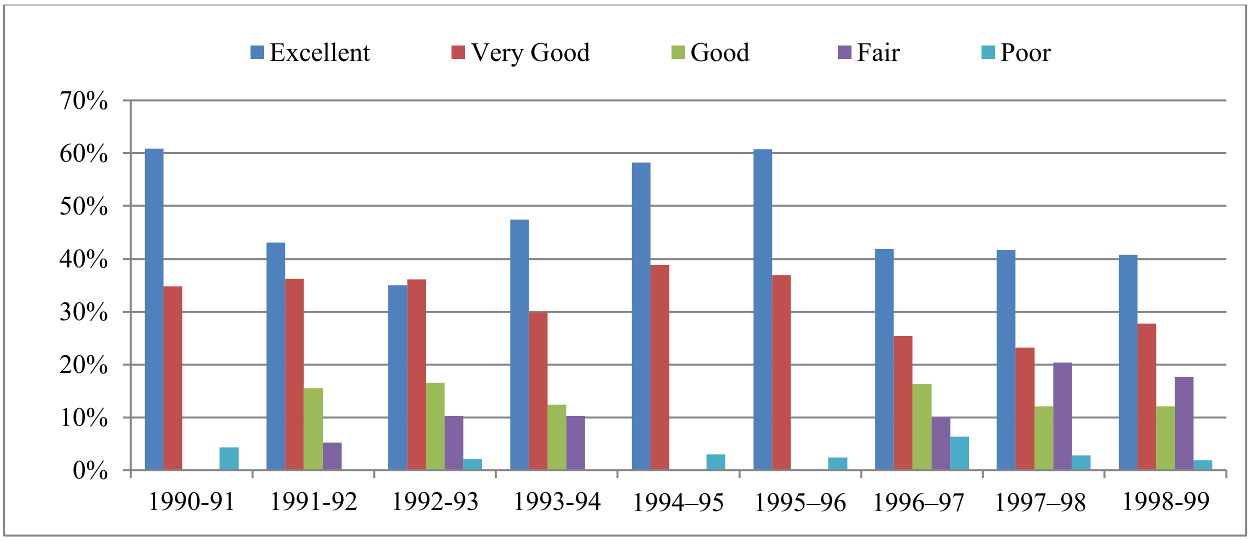

Figure 1: Performance Indicator of SOEs under the MoU system
Source: Various Public Enterprises Surveys

The number jumped to 72 in the year 1991–92 (while total SOEs stood at 237) when the new economic policy was introduced, though it rose only marginally thereafter. At the end of the phase 1998-99, the number of enterprises under the MoU system had increased to 108 (while total SOEs stood at 236). The year also saw an increase in the number of enterprises under the 'Excellent' category at 44 (40%), and the number of enterprises under 'Very Good' category climbed up to 32 (28%). On an average, the number of enterprises graded 'excellent' and 'very good' together consists of 68 per cent for the year 1998-99. With only two enterprises performing poorly. Here, too, the NCAER hypothesis or paradox, is very much relevant i.e., does the improving performance of MoUs during this phase indicate the same for the overall performance of SOEs? The performance of SOEs under the MoU system has indeed improved and we look further into finding that this completely represents improvement in the overall performance of SOEs.

Disinvestment policy

This phase witnessed quite a few changes in the way disinvestment policy began and ended. It began with concern for poorly performing SOEs but later, with the establishment of the Disinvestment Commission, the policy concern was more on the disinvestment of healthy SOEs to overcome the fiscal deficit problem. Industrial policy of 1991 was an important aspect of the New Economic Policy of 1991. Besides dereservation and delicensing, MOU and Disinvestment were the important components of this policy. The number of SOEs signing MoU increased to 72 from 23 SOEs in 1990-991. This is a very positive sign of bestowing confidence on the MoU system and its impact on the performance of SOEs. Given the amount of confidence bestowed on the MoU and, along with other reforms in internal liberalisation, a very important question crops up. Why was there a need to shift the policy towards disinvestment of SOEs?

Looking at the nature of the crisis, it can be speculated that the disinvestment of SOEs was done to cover up accumulating fiscal deficit rather than concerns over efficiency. What led to such a transition requires some investigation.

The introduction of disinvestment policy in 1991 marks a major shift from the institutional reform introduced before this. According to an Industrial Policy statement, in "the case of selected enterprises, part of government holdings in the equity share capital of the enterprises will be disinvested in order to provide further market discipline to the performance of public enterprises". Therefore, the NEP of 1991 focused on four issues: "strategic industries, sick industries, raise resources through public participation and greater thrust on MOU". Furthermore, the interim budget speech of 1991 made the industrial policy much clear by outlining the cap of 20% for disinvestment and distinguishing the eligible investors': mutual funds and investment institutions in the public sector and the workers in these firms.

This phase predominates with disinvestment policy, which is also accompanied by other structural reform that has complemented the performance of SOEs. But it has also made it challenging to segregate the impact of different policy on the performance of SOEs. It began in 1991-92 and, within a few years, foreign participation (1994-95) was allowed beginning with non-resident Indians (NRI) and then foreigners through global depository receipts (GDR). The Rangarajan Committee in 1992 and Disinvestment Commission in 1996 were set up with the sole objective of making the experience of disinvestment successful. Finally, “Navartnas” and “Mini-Ratnas” were introduced in 1997 with the objective of granting greater autonomy and making SOEs more competitive and eventually generate better performance from the selected premier SOEs. Classification of SOEs based on the performance and providing greater autonomy.

The objective for the disinvestment policy was also specified to broad-base equity, improve management, enhance availability of resources for these PSEs and yield resources for the exchequer. It has been argued by many that the primary objective of disinvestment policy was to generate resources to meet the expanding fiscal deficit of the government (Ahluwalia, 2002; Basu, 1993; Kaur, 2004).

To sum up, it can be said that to make SOEs more efficient, the government had three broad objectives of disinvestment: broad base ownership, revenue generation through disinvestment by focusing more on the core industries, relieving the non-core to the public. Finally, protect employee interests. However, from the unfolding of disinvestment over this phase, the objective looks more to garner revenue through disinvestment to meet the fiscal deficit (also claimed by Ahluwalia, 2002; Basu, 1993; Kaur, 2004) and rhetoric in nature.

To redefine the economic reforms in the country and the performance of PSU's, a new Industrial policy was drawn up in 1991, which discussed the role of PSU and came up with a comprehensive policy for disinvestment of public sector undertakings. The policy brought autonomy to the PSU boards and encouraged them to improve efficiency in their operations. Until 1994, however, in most cases of disinvestment involved only 5 per cent of equity. Even though the year 1994 and 1996 saw participation from Non-resident Indians and foreign investors respectively, the this phase of disinvestment of equity did not exceed 20 per cent. In 1996, the Government of India set up a Disinvestment Commission to advise the Government on disinvesting various CPSE's. Moreover, in addition to sales in domestic capital markets, the government sought greater foreign participation through selling of share via Global Depository Receipts in the international market. In December 1999, the commission was dissolved and all the decisions on disinvestments in India were taken by a separate Department of Disinvestments that was formed under the Ministry of Finance. In 2001, the Government upgraded the Department of Disinvestment to a full-fledged Ministry. But in 2004, the first among many decisions taken by the new Government was to shut down the ministry and merge it in the Finance ministry as the Department of Disinvestments. This department was renamed later as Department of Investments and Public Asset Management.

In the second phase, the number of SOEs making profit or loss has been very irregular (Table 2). The number of enterprises making profit at the end of the phase, after some ups and down, has fallen to 126 from 133 in the beginning and the number of loss-making enterprises has also from 102 enterprises to 107.

Table 2. Profitability Profile of Public Enterprises *(INR in million* at constant price with base year 2004-05)

	Particulars	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99
1	Operating enterprises	237	239	240	241	239	236	236	235
	Profit making PSEs	133	131	121	130	132	129	134	126
	Loss Incurring PSEs	102	106	116	109	102	104	100	107
	PSEs No profit/loss	2	2	3	2	5	3	2	2
2	Capital Employed	2629283	2868016	2974778	2754083	2702308	3332061	3377795	3316686
3	Profit before dep, int, tax & EP (PBDITEP)	495234	516390	515667	565969	623907	640776	717346	706832
4	Depreciation	190482	189755	170313	182316	195339	195186	214358	209791
5	Profit before int., tax & EP (PBITEP)	304753	326636	345354	383653	428568	445590	502989	497041
6	Interest	215551	222731	221495	218054	216964	223941	243207	250541
7	Profit before Tax & EP (PBTEP)	89202	103904	123859	165600	211604	221649	259782	246500
8	Tax Provision	36701	36948	39270	43756	62871	74834	76166	81312
9	Net Profit (7-8)	52501	66957	84589	121877	148734	146815	183615	165188
10	Profit of Profit-making PSEs	135463	151149	181797	204626	229345	232416	274152	281607
11	Loss of loss-making PSEs	82962	84192	97208	82783	80596	85601	90537	116419
12	Dividend	15309	16212	19133	24345	34255	40876	48790	61706
14	Retained Profit	37192	50744	65456	97498	114479	102177	128552	96763
Financial Ratios (%)									
15	PBDIT EP to Capital employed	18.8	18	17.3	20.6	23.1	19.2	21.2	21.3
16	PBITEP to Capital employed	11.6	11.4	11.6	13.9	15.9	13.4	14.9	15
17	Net Profit to Capital employed	2	2.34	2.84	4.42	5.89	4.41	5.43	4.98
18	Dividend payout	29.2	24.2	22.6	20	23	27.8	26.6	37.4
	GDP deflator	0.4488	0.4885	0.5373	0.5899	0.6437	0.6938	0.7397	0.7993

Source: Various Public Enterprise Surveys, compiled into real value using GDP Deflator

In terms of real profit and loss, there has been many-fold increase in both. Overall, we can say that there is improvement in the performance in terms of profitability and losses generated by the SOEs during this period. The Table 3 also shows an impressive trend of improvement in the financial performance of the SOEs. The profit before depreciation, interest and tax (PBDITEP - also called gross margin in phase one) has increased by 42.73 per cent. The rate of return to capital employed has also seen a jump from 18.8 per cent to 21.3 per cent by the end of year 1998-99, thereby registering a very impressive return compared to the previous phase, which saw a fall in the rate of return. This was also a very strong indicator of improving the performance of SOEs.

The return on investment after considering the depreciation or profit before interest and tax (PBITEP) during this period increased by 63.10 per cent. PBITEP to capital employed i.e., return on investment went up from 11.6 per cent to 15 per cent, which is much better placed than in the first phase with its falling rate of return.

Finally, the net profit during this period registered an increase of 107.88 per cent. Also, the ratio of net profit to capital employed showed tremendous improvement, registering improvement of more than double. This was again a far better performance than the net profit performance in the first phase.

The good innings in the second phase saw the number of enterprises under MoU system increase to 108 out of a total of 235 SOEs, which constitutes nearly half of the SOEs and a very good representation unlike the earlier phase. Under the MoU system, 74 % of enterprises came to be categorised as either 'excellent' or 'very good', which clearly indicates the performance of SOEs in this phase. Also, the indicators of profitability performance show tremendous improvement in the performance of all the enterprises. Thus, it can be concluded that the second phase was a much better performing phase than the previous one.

This phase also saw introduction of economic reforms both externally and internally which are improving the competition and marketisation environment. These could have further impact on the performance of SOEs. To begin with the de-reservation and deregulation policy followed in 1991 and the introduction of Navaratna and Mini-Ratna (1997) schemes through MoUs improved the performance of SOEs in terms of productivity. Also, in order to strengthen the overall autonomy of the SOEs and distance the presence of government in issues of micro-management, 696 guidelines issued over the last three decades (since 1997-98) on SOEs were withdrawn in this phase. These changes could also have indirectly amounted to an improvement in the performance of SOEs.

There were three specific objectives laid down before the start of this phase which includes first, market discipline through disinvestment and broad-based ownership, second, revenue generation, and, finally, protection of employee's interest. The disinvestment policy in this phase has failed in most of these aspects.

Strategic sale policy

The policy of 'disinvestment' in SOEs has evolved over the past two phases. Reform of SOEs from 1986, with the introduction of MOU and disinvestment of government equity in SOEs in 1991-92, with minority share sale, has now come to affect even greater changes in the privatisation policy.

The third phase of disinvestment marks the beginning of majority sale of SOEs' share or total transfer of management. This phase took an even greater leap from the original disinvestment policy and at a greater pace. It must be said here again that given the performance of SOEs in the previous phase, the reform was not called for. However, unlike the second phase, the third phase of disinvestment took place as an outcome of the formation of the new NDA government on March 19, 1998. It can largely be said that the outcome of change is greatly attributed to the political inclination of the new government and the discontinuation of this policy is also attributed to the same reasoning.

Strategic sale is the method through which sale of large block of shares (23%) in a SOEs are conducted with private partners and, most import of all, with the transfer of management control. It is based on the transfer of management control that the State expects to get 'control premium' on the shares sold and also expects to get better value to the shares sold than the earlier phase.

In February 2001, Government of India announced that there will be more emphasis on strategic sale and the government will reduce its stake in the non-strategic PSEs even below 26%, if necessary. In December, 2002, the government specifically laid down the objectives of disinvestment as modernization and upgradation of PSEs, creation of new assets, generation of employment, retiring of public debt and setting up a Disinvestment Proceeds Fund. The objective of the new policy can be deduced from three important aspects. First, strategic sale of non-strategic SOEs; second, proceed from strategic sales to be directed towards investment in social sector, restructuring of SOEs and, finally, retirement of public debts.

With the coming of the new UPA government in 2009, the reversal of strategic sale was initiated and a new disinvestment policy with a different set of objectives was announced in 2009 declaring that the Public Sector Undertakings (PSUs) are the wealth of the nation, and part of this wealth should rest in the hands of the people. While retaining at least 51 per cent Government equity in the enterprises the rest could be passed on the people. The reversal policy in 2004 shifted the policy of disinvestment again to minority share sale. The objective was more focused on people-ownership of public sector along with investment in social sector and retirement of public debts.

Figure 2 makes thing clearer vis a vis the performance of SOEs under the MoU system. The number of SOEs with 'Excellent' grade increased from 49 enterprises in 1998-99 to 69 in 2011-12 with an average increase of 45 per cent. The SOEs under the 'Very Good' category has gone up from 29 in 1989-99 to 39 in 2011-12, a jump of 27 per cent during this phase. Together, on an average, the number of enterprises with 'Excellent' and 'Very Good' SOEs is 72 per cent of the total. This kind of performance is maintained in spite of there being increase in number of SOEs under the MoU system and structural change in the nature of evaluation of MoU under the 'balance score card', which is a very good sign of progress.

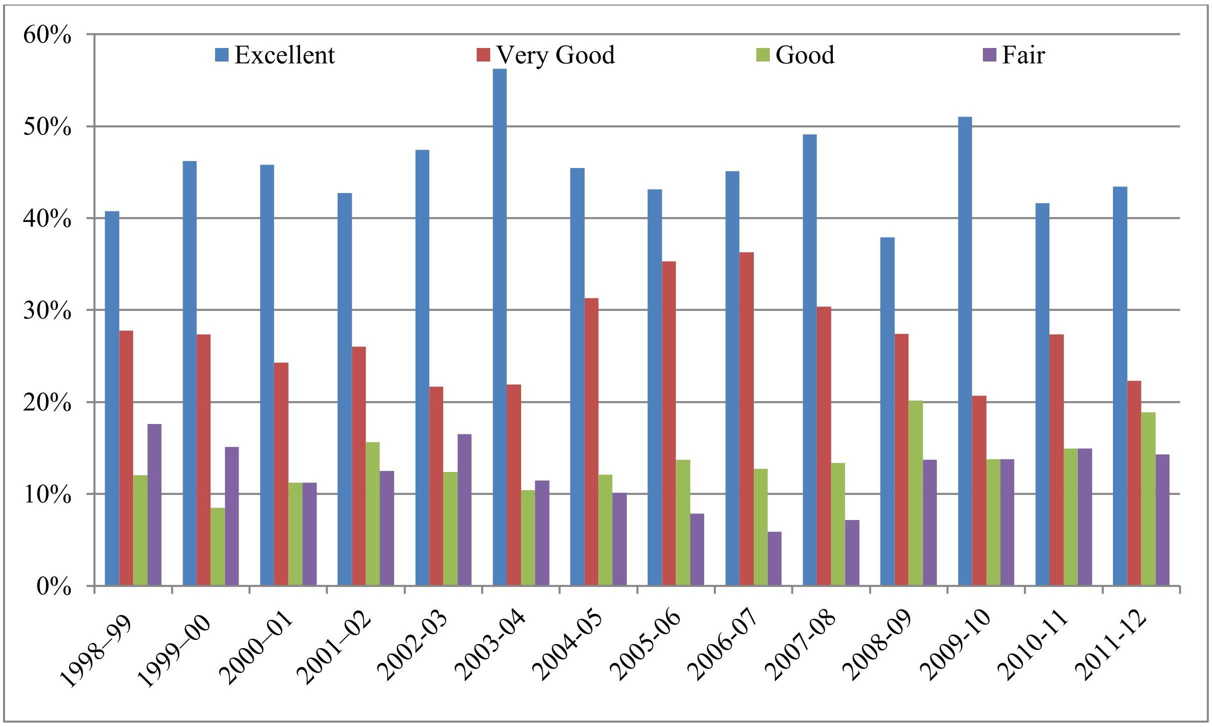

Figure 2: Performance Indicator of SOEs under the MoU system in Third Phase
Source: Various Public Enterprise Surveys

The performance of SOEs, at an aggregate level, vis-à-vis the different financial ratios for the last 12 years is shown in Table 4. The number of enterprises operating has come down from 232 to 220 because of government policies and strategic sale during this phase. The number of enterprises making profit has gone up from 126 in year 1999-00 to 158 in the year 2011. Similarly, the number of loss-making SOEs has also come down from 105 enterprises in 1999-00 to 62 in 2010-11, which is very progressive. Overall, there have been some improvements, thereby making this phase much better than the previous two phases.

As seen before, the analysis of financial performance, profitability and return on investment in SOEs can be made in several ways. Unlike the previous two phases, the analysis of overall financial performance in the third phase of SOEs reforms has many more variants of financial indicators. Along with evaluation of financial performance of SOEs such as gross margin, gross profit, profit before tax, as also post tax position of profits/losses, dividend paid by enterprises on share capital and generation of internal resources, there were also other financial ratios indicating different aspects of financial performance.

Table 4: Overall Profitability Trend from 1999-2012 (Third Phase) (Rs. in million) (at constant price with base year 2004-05)

	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
No. of operating Enterprises	232	234	231	226	230	227	226	217	214	213	217	220
i. Profit making PSEs	126	123	120	119	139	143	160	154	160	158	157	158
ii. Loss Incurring PSEs	105	110	109	105	89	73	63	61	54	55	60	62
iii. No profit/loss	1	1	2	2	2	---------	1	1	---------	---------	---------	---------
Capital employed	3676279	3889659	4436582	4961578	4781637	5044070	5617521	5964132	6157020	6212114	6712581	6450665
Turnover	4722951	5378806	5446894	6918059	6667162	7443070	8033562	8701650	9323075	9970416	9202411	10009371
Total Net Income	4900257	5632360	5669716	6731612	6487476	7349440	7962351	8750944	9378045	10269248	9405074	10176389
Net Worth	1949788	2011971	2565370	3201000	3084909	3415950	3811719	4095508	4409230	4572596	4827351	4858107
Profit before dep, int, tax EP (PBDITEP)	754946	813294	1018880	1396546	1345898	1425540	1441713	1605164	1658710	1465034	1561210	1546504
Depreciation	2426307	240865	299918	342786	330354	331470	334355	298875	311827	288402	307557	292152
DRE/Prel. Exps. Written Off	--------	---------	----------	11243	10835	9860	9518	52676	49341	60072	70711	95174
Profit before int., tax & EP (PBITEP)	512949	572429	718962	1042463	1004656	1084200	1097840	1253613	1297542	1116559	1182950	1159185
Interest	245529	279365	283955	261441	251959	228690	227470	247831	273202	308162	266579	264943
Profit before Tax & EP (PBTEP)	267420	293064	435006	780364	752062	855500	870370	1005782	1024340	808397	916371	894242
Tax Provisions	93513	109328	139435	242783	233978	216620	233822	309796	346532	265255	295839	307778
Net Profit before EP	173907	183736	295572	537580	518084	638890	636548	695986	677808	543142	620532	586464
Extra-Ordinary Items & prior Period Adj.	----------	----------	----------	-43140	-41576	-10750	-30626	-34991	-13351	-114483	-61093	-39084
Profit of profit-making PSEs	298923	334464	414515	675743	651236	744320	732859	807867	778777	772272	801615	772926
Loss of loss incurring PSEs	125015	150728	118943	93476	90086	90030	65675	76890	87617	114647	119990	147377
Dividend	66197	96956	91796	167691	161609	207180	219583	241861	239160	199961	245606	242408
Dividend tax	9587	9883	91	21510	20730	28520	30847	37038	40156	32400	38080	36646
Retained profit	98124	76896	203685	537569	518073	413940	416744	452077	411843	425256	397873	346495

Source-Various Public Enterprise Surveys; compiled into real value using GDP Deflator

Table 5: Financial Ratios

		1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
1	Sales to Capital employed	128.47	138.28	122.77	137.32	139.43	147.56	143.01	145.90	151.28	160.30	137.09	155.17
2	PBDITEP to Capital employed	20.54	20.91	222.97	24.38	28.15	28.26	25.66	26.91	26.91	23.55	23.26	23.97
3	PBTEP to Net worth	13.72	14.57	16.96	20.10	24.38	25.04	22.83	24.56	23.12	17.55	18.98	18.41
4	PBDITEP to Turnover	15.98	15.12	18.71	17.75	20.19	19.15	17.95	18.45	17.79	14.67	16.97	15.45
5	PBITEP to Capital employed	13.95	14.72	16.21	17.39	21.01	21.49	19.54	21.02	21.05	17.95	17.62	17.97
6	PBITEP to Turnover	10.86	10.64	13.20	12.66	15.07	14.57	13.67	14.41	13.92	11.18	12.85	11.58
7	PBTEP to Turnover	5.66	5.45	7.99	8.49	11.28	11.49	10.83	11.56	10.99	8.09	9.96	8.93
8	Net Profit to Turnover	3.68	3.42	5.43	5.65	8.40	8.73	8.30	8.40	7.41	6.59	7.41	6.25
9	Net Profit to Capital Employed	4.73	4.72	6.66	7.75	11.71	12.88	11.88	12.26	11.21	10.57	10.15	9.70
10	Net Profit to Net Worth	8.92	9.13	11.52	13.37	18.16	19.02	17.50	17.85	15.60	14.28	14.12	12.88
11	Dividend payout Ratio	38.06	52.77	31.06	42.57	28.85	31.89	32.91	33.09	35.33	31.06	35.87	38.81
12	Tax Provision to PBTEP	34.97	37.31	32.05	35.99	31.11	25.32	26.86	30.80	33.83	32.81	32.28	34.42
13	Interest to Gross Profit	32.52	34.35	27.87	23.52	18.72	16.04	15.78	19.77	21.06	27.60	22.54	22.86

Source-Various Public Enterprise Surveys

From Table 5 it may be seen that there has been an impressive trend of improvement in the financial performance. In spite of increase in capital employed by 75.47 per cent (in real term), profit before depreciation, interest, tax and 'extra-ordinary items' (PBDITEP) showed an increase of 104.85 per cent in a span of 11 years. In addition, the ratio of PBDITEP to capital employed or in other words the rate of return on investments to national economy continued to do much better than the previous phases. It increased from 20.54 in year 1999-00 to 23.97 in 2010-11.

During this phase, the profit before interest, tax and EP (PBITED), after accounting for depreciation during this period, had decrease from Rs. 512948.777 million to Rs. 1159184.76 million. The decrease amounts to increase of -97.74 per cent. In addition, the ratio of profit before interest and tax to capital employed i.e., return on investment has gone up from 13.95 per cent to 17.97 per cent. The Net profit during this period also increased by 237.23 per cent, thereby showing a much better performance than the previous phases.

In this phase, the profitability ratios have also improved since 1999-00, whether measured in terms of Net Profit to Turnover, Net Profit to Capital Employed, Net Profit to Net Worth or Dividend Payout. Net Profit to Capital Employed, which is an important indicator for investors, has more than doubled during this phase. It stood at 4.73 per cent in year 1999-00 but went up to 9.70 per cent for the year ending in 2010-11. Similarly, other ratios for Net Profit have shown very impressive trend.

However, the same cannot be said about other ratios where the performance was erratic and the dividend payout ratio fluctuating. It was 38.06% in 1999-00, it peaked to 52.77% in 2000-01 and then again came down to settle at 38.8% in 2010-11. Very similarly, the interest burden on SOEs measured as 'interest to gross profit' also showed an erratic behaviour; it first declined till 2005-06 and subsequently, it shows an upward trend till 2008-09 and thereafter it again falls finally settling at 22.86 per cent in 2010-11. The ration of tax provision to PBTEP, the tax burden on SOEs, initially showed some signs of improvement but with a significant fall in 2004-05, it got worse. Thereafter, it was 34.42 per cent in 2010-11, which was as low as 15.78 in 2005-06.In conclusion, it can be said that the SOEs in this phase outperformed the previous two phases. In spite of the increase in number of SOEs under MoUs and reform with management transfer, this phase witnessed an improvement in the performance of SOEs under MoU system and also in their overall financial performance. There was also no dip in the performance of the SOEs after the reversal of strategic sale from year 2004, thereby also questioning the necessity of the strategic sale. From 2010 onwards the Navratna scheme was further extended to the Maharatna Scheme with the objective of further enhancing financial autonomy of the SOEs and providing further scope of improvement for the Navratana SOEs

CONCLUSION

It is evident from the Indian experience of privatisation that the performances of SOEs have been improving gradually from phase to phase. Like China, the change has been gradual and experimental in its nature. It started with the inception of the MoU system in a few enterprises and to this day continues with extensive inclusion of SOEs under this system. The continuity and performance under the system are proof in itself of the success of this system, though the debate on the MoU completely responsible for the performance of SOEs continues.

The performance in the later phases shows around 74 % of enterprises under the MoU system were graded either as ‘excellent’ or ‘very good’. In both the phases, the number of enterprises under MoU only went up, indicating a very good overall representation of SOEs. Furthermore, the overall financial performance of SOEs in both these phases showed excellent performance. Though number of loss-making SOEs still exists, their total number seems to have fallen dramatically when compared with the previous phases. Also, the loss margin in such enterprises continues to fall. These, too, are indicative of the improving performance of SOEs.

On the institutional front, the credibility of the MoU system of categorisation of SOEs can still be questioned. The MoU system should not end up being an aid to bureaucrats and be victim of political interference or increase the paperwork that the SOEs were required to carry out earlier. Also, in the incentive structure of the MoU, it pays for the manager to set lower targets and to get better performance record. The government is simultaneously working on this through the participation of agencies outside the government. However, competition and deregulation, the important constraints for the pursuit of efficiency, continues to be lacking in the system.

Overall, the reforms in SOEs can be concluded in three important points. First, the credit for the successful performance of SOEs goes to multiplicity of reform policies introduced. Second, the Indian experience of SOE reforms, the relevance of management transfer of SOEs i.e., strategic sale is still questionable. Third, the initiative of the Navratna, Mini-Ratna and Maharatna schemes could also be thought of as a solution to tackle the inefficiencies of SOEs.

It may be noted that closing down unviable CPSEs that employ a large number of workers is a difficult process (Katoch, 2021). Disinvestment could be better option than MOUs. Chhibber and Gupta (2019) analyses the performance of India’s Public Sector Undertakings using measures of labour and overall efficiency and productivity indicators using methods that correct for selection bias and show that performance contracts do not improve firm efficiency, but disinvestment has a very strong positive effect on firm efficiency. Disinvestment improves labour productivity and efficiency, which is not surprising, but it also improves overall efficiency. In addition, disinvestment unlocks capital for use elsewhere, especially in public infrastructure, and reduces the possibility of political interference in their functioning in the future. Finally, in the Indian context, it is the ruling government’s ideology that determines reform policies which lack long-term vision and absence of proper privatisation policy.

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