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"SKILL DEVELOPMENT : THE KEY TO ECONOMIC PROSPERITY

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Abstract : Disinvestment programme is a major step under liberalization policy adopted by Government of India. Entry to the private sector or privatization has lead to major change in the Indian economy. As a part of privatization of Public Sector Units (PSUs) disinvestment of equity was started in December 1991 and a Disinvestment Commission was set up during 1991 -92 for identifying PSUs for equity disinvestment and for suggesting modalities of disinvestment. India's privatization is seen in two aspects namely full privatization and partial privatization. It is believed that the private ownership leads to better use of resources and their more efficient allocation. This research paper highlights the pre and post disinvestment impact on PSUs. It also studies factors responsible for such impact on Public Sector Units.

INTRODUCTION

In the recent years the focus of the growth has changed from capital accumulation to productivity in growth in the organized manufacturing sector in India. India has opened its economy gradually from 1991 and moved away from physical and investment restrictions over a period of time which leads to industrial growth and progress. Industrial growth is further supported by the factors such as modernization of labour legislation and reforms of the public sector. Entry to the private sector or privatization has lead to major change in the economy. As a part of privatization of Public Sector Units (PSUs) disinvestment of equity was started in December 1991 and a Disinvestment Commission was set up during 1991 -92 for identifying PSUs for equity disinvestment and for suggesting modalities of disinvestment. The pace of disinvestment was not so satisfying during the first decade of reforms. Although a good number of PSUs had been disinvested either by the sale of equity or through strategic sale, the political disagreements in disinvesting high profile PSUs such as Indian Airlines, Air India etc. suggest that the political economy considerations are still unfavorable to large scale disinvestment in our country.

RATIONALE BEHIND DISINVESTMENT

The rationale behind the disinvestment and privatization are as follows:

◆ It is believed that the private ownership leads to better use of resources and their more efficient allocation.

◆ The proliferation of market based economy resulted in the fact that State could no longer meet the growing demands of the economy. It was believed that the government can deliver better results when it responds according to the market driven forces.

◆ Globalization and WTO commitments need quick restructuring of the Public Sector Undertakings.

In this view, Rangarajan Committee was constituted in 1993 by the government for making recommendations in context with the disinvestment. The committee said that the units to be disinvested should be identified and disinvestment could be made up to any level, except in defence and atomic energy where the government should retain the majority holding in equity. Disinvestment should be a transparent process duly protecting the right of the workers. An autonomous body for the smooth functioning and monitoring of the disinvestment programme should be established. This recommendation led to the

Disinvestment Commission in 1996 as an advisory body having a full time chairman and four part-time members. The Commission was required to advise the government on the extent, made, timing and pricing of disinvestment. It suggested four modes of disinvestment viz. Trade sale, Strategic Sale, Offer of shares and Closure or sale of Assets.

The purpose of disinvestment exercise is to improve the performance of PSUs. It is believed that the private ownership leads to better use of resources and their more efficient allocation.

OBJECTIVE OF THE STUDY

This research paper highlights the pre and post disinvestment impact on PSUs.
Study also specifies factors responsible for the said impact on Public Sector Units.

RESEARCH METHODOLOGY:

The study is based on the secondary data collected from Periodicals, journals, e journals and reference books.

DISINVESTMENT POLICY IN INDIA

India’s industrial policy and planning has a mix of economic and social objectives. The economic objective is growth and social objectives are regional balance, small industry etc. India’s privatization is seen in two aspects namely full privatization and partial privatization. Under full privatization both ownership and control shift to the private sector at the same time. In contrast, under partial privatization the shares of the firm traded on the stock market while the firm remains under government control and subject to political interference. Very few studies have been undertaken to understand the impact of partial privatization which is rather a prominent factor to be understood if the effect of such policies on Public Sector Units is to be analyzed. In the first part of the research paper the impact on profitability of the Public Sector Units is highlighted.

It is extremely important to understand the facts related to the net profitability ratios computed on the basis of profits before depreciation, interest and tax. The computed ratio for the selected units for pre and post disinvestments period is given in Table 1. Pre and post disinvestments performance - a comparative view is reported in the Table given below:
PBDIT/SALE*100

	After (Mean)	Before (Mean)	Mean Difference	T-value	Degree of Freedom	Sig.level (2 tailed)
HPCL	6.9326396	7.13206	-.2011	-.298	8	.773
ONGC	56.236303	44.337695	12.0056	3.610	8	.007
IOCL	7.0693902	7.5627793	-.4956	-.792	8	.451
BEL	16.499286	19.086549	-2.5878	-1.578	8	.153
CONCOR	32.56857	36.30458	-3.0500	-.694	8	.526
BHEL	15.068271	13.933273	1.1344	.826	8	.433
MTNL	44.928302	56.979673	-12.0500	-3.712	8	.006
BEML	8.3664896	18.534119	-10.1700	-6.622	8	.000
BPCL	6.6821779	7.3675855	-.6841	-1.042	8	.332.
GAIL	24.853112	30.109409	-5.25563	-.321	8	.756

Table 1 Source: International Journal of Reviews, Surveys and Research (IJRSR) Issue - Volume 3 Issue 2 May 2014.

Table 1 shows the difference between the performance of pre and post disinvestments period. Return on sales ratio has been computed for the selected units by dividing the amount of profit before depreciation, interest and by sales taxes for pre-and post disinvestments period. Table shows the, return on sales ratio has been reported in increasing trends only in case of ONGC and BHEL after disinvestments. While remaining units have better ratios in pre disinvestments period. So it can be said that the performance of selected units has not improved in general after disinvestments. T-value indicates whether the difference return on sales, for pre and post disinvestments period is statistically significant or not. The findings indicate significant difference for ONGC, MTNL and BEML. For rest of the selected units, the difference in terms of return on sales between pre and post disinvestments is not statistically significant.

RETURN ON ASSET RATIO (PBDIT/ASSETS)

The computed value of return on assets for pre and post disinvestments period is listed in Table 2 which reveals the difference between two periods and t values indicate whether the difference in periods is significant or not. Return on assets has been computed for the selected units by dividing the amounts of profit before depreciation interest and taxes for pre and post disinvestments period. Pre and Post Disinvestment Performance-A comparative view is presented in Table given below.
PBDIT/Assets*100

	After	Before	Mean Difference	T-value	Degree of Freedom	Sig.level (2 tailed)
HPCL	17.507352	20.0208	-2.5122	-2.353	8	.046
ONGC	28.0856	18.0967	9.9889	2.802	8	.023
IOCL	14.785507	13.954801	.8300	.365	8	.725
BEL	12.174536	10.763158	1.4133	1.367	8	.209
CONCOR	31.577864	15.63474	15.94312	6.114	8	.001
BHEL	10.859491	9.4787166	1.3800	.885	8	.402
MTNL	14.201181	16.189112	-1.9878	-1.134	8	.289
BEML	6.1115349	13.191687	-7.0800	-11.031	8	.000
BPCL	17.596482	19.370072	-1.77309	-1.539	8	.163
GAIL	21.43351	12.183404	9.250106	4.546	8	.002

T able 2Source: International Journal of Reviews, Surveys and Research (IJRSR) Issue - Volume 3 Issue 2 May 2014.

Table presents the performance of ONGC, IOCL, BEL, CONCOR, BHEL and GAIL is reported better in post disinvestments period than before disinvestments. T-values at 5 percent level of significance is reported that the difference in case of HPCL, ONGC, CONCOR, BEML and GAIL in significant and null hypothesis in these cases is rejected. On the other hand, performance of HPCL, BPCL and MTNL has been better during the pre disinvestments period. The performance in terms of this ratio has deteriorated in case of BEML as the difference between pre and post disinvestments period are statistically significant at 5 per cent level of significance.

OBSERVATIONS OF THE STUDY

The data reveals the fact that disinvestment in many cases has not lead to real improvement in profitability. It is extremely important to analyze the reasons for the same. The performance of the companies is rather low after disinvestment and the reasons can be subjective. However, some facts are clearly highlighted out of the study.

1.In many cases disinvestment has not changed the ownership of PSUs, as the government has retained its major stake.

2.It is observed that inefficiencies come from interference by government authorities. Even after disinvestment most of these companies have not been autonomous in their procedural work which leads to little or no improvement after disinvestment.

3.Government often compels financial institutions and mutual funds to purchase the equity. These

organizations often show least interest in such cases and end up in low valuation or under pricing of equity.
4.Most of the times it is also seen that disinvestment process is not open and transparent.
5.Disinvestment has not yielded desired results in majority of dimensions; it may be virtually due to variety of problems faced by PSEs even after disinvestment such as inefficient, high cost and non competitive industrial structure, operational inefficiency, environmental restriction, less proportion of disinvestment and capital market discipline.

CONCLUSION

The disinvestment process needs to be taken up more seriously by the government. The Government should try to come out with a time bound programme to conduct the process with transparency. Some consensus is very essential. Only then the real benefits can be reaped. The operational efficiency can be increased through transfer of management control into private hands, private capital and management practices. It is necessary to get the Government out of the business production and enhance its presence and performance in the provision of public goods. Privatization allows Government's capital expenditure to be allocated to public goods and basic infrastructure that is not commercially viable.

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