UNIT 17 MANAGEMENT OF FINANCE, MARKETING AND PRODUCTION, ISSUES

Objectives

After going through this unit, you should be able to:

- Discuss the concept of management of finance in public enterprises;
- Understand the relevance of management of marketing in Public enterprises;
- Understand the scope of production issues;

Structure

17.1 INTRODUCTION

Public enterprises (PEs) in India face a host of financial problems. The ultimate financial results of these enterprises have been substantially affected by their inefficient financial management. India, being a developing country, continues to strive to achieve planned economic growth through generation of additional income in various sectors of economy such as agriculture, industry, mining, internal and external trade. What is aimed at is not only economic growth but also social change in a planned manner.

In the process, the country has been constantly facing the problem of limited resources, and adopt the concept of public enterprise as an instrument for better usage of these limited resources for the benefit of the society at large. Under such circumstances, marketing as an activity, which involves (1) attraction of sufficient resources, (2) conversion of these resources into products, services and ideas, (3) distribution of these outputs to various consuming public, is inevitable to public enterprises.

PEs in India are of two kinds: (a) central public enterprises (CPEs) under the direct control of central government, and (b) state level public enterprises (SLPEs) initiated by the respective state governments for implementing their aims and polices. While CPEs by and large are in manufacturing activity such as machine tools, heavy electrical etc. majority of the SLPEs are engaged in promotional, developmental or service activities.

Marketing utilises and blends a set of tools called the **marketing mix** — production design pricing, communication and distribution. Too often many equate marketing with only one of its tools such as advertising. But marketing is oriented towards producing result and this requires a broad conception of all the factors influencing buying behaviour.

Production is a key performance area in any industrial undertaking. The success of an enterprise largely depends upon the efficiency of its production system. Production is a dynamic process. A minor portion of value addition in any economic effort is contributed by the production activity. Production or productive endeavors and achievement of organisational goals are closely linked in all enterprises – whether public owned or private owned. Unfortunately, however, the significance of production is frequently misconstrued. Although it could be viewed as a simple input-output system, it may involve high levels of complexity. Production management goes beyond the issues of physical feasibility. It involves an active interface with all the functional areas. Besides engineering and technology, subjects such as economics and industrial psychology also play an important role in creation and operation of production system.

In this unit, an attempt has been made to portray the concepts of financial management, marketing management and production management in public enterprises.

17.2 FINANCE OBJECTIVE

Finance objective constitutes the core of overall business objectives. There is a view that PEs need not have any finance objective as they are expected to generate profits since all their losses could be made good by the State. The practice reveals that whereas these enterprises have chosen to explicitly indicate the sub-financial objective, they are faced with the dilemma of evolving full-fledged financial objectives. Some PEs point out stepping up the rate of internal resource generation as their finance objective. The declaration of dividends on equity investment has been assumed as finance objective by many PEs. A sizeable chunk of PEs believe that control, cost reduction, financing of working capital and expansion, raising resources for funding new technology and arranging ways and means to finance diversification constitute the finance objective. In order to point out the finance objective in real sense of the term, we need to dissect the term “PE”. As is obvious this term comprises two words viz. ‘public’ and ‘enterprise’. By being ‘public’, these enterprises lend themselves to the ownership and control of the Government and management by it. The ‘enterprise’ dimension makes it obligatory on them to produce goods and render services at a price which should result into profits to be recorded in the profit and loss account and balance sheet. This makes it clear that a PE has both the ‘public’ and ‘enterprise’ dimensions. The ‘enterprise’ dimension is preceded by the ‘public’ dimension which suggests that a PE cannot think in terms of profits alone. However, they cannot overlook the profit earning in view of the presence of the enterprise element. In other words, a trade-off would have to be achieved by giving due credit to the nature and activities of the enterprises. PEs having a larger public dimension would lay less stress on profitability whereas those dominated by the enterprise dimensions would make efforts to maximize their profitability.

Organisation for Financial Management

A study of the organisation for finance should reveal the status and importance of finance function in an enterprise and its role in the changing dynamics of the business entity. The organisation for finance is shaped among other things, by the structure of an enterprise. If it has a simple structure in terms of products and location, the organisation would be functional. The organisation for finance would be complex, on the other hand, in the case of multi-product, multi-unit and multi-locational undertakings. In the initial years when public sector units were just coming up we had cases of finance function being looked after by executives functioning at the middle or junior levels in the organisation. The finance departments were characteristically inadequately staffed. The background of the finance personnel was considered to be an immaterial factor. The training and education of the finance personnel were foreign to the minds of the top managements in PEs. Though finance was a staff function the variegated expertise was missing and the line relationships within the finance department dominated the staff requirements. Over the years, the organisation for finance has been undergoing a shift from pure functional and centralised type to decentralised and divisionalised type organisation.

17.3 SCOPE OF FINANCE FUNCTION

The width and depth of finance function in PEs challenges anybody's imagination. Most of the decisions in business enterprises have indirect or direct bearing on finance. PEs are no exception to this generalisation.

The finance function is saddled with the following responsibilities in PEs:

i) Determining the financial resources required to meet the company's operating programme.

ii) Forecasting how much of the requirements would be met by internal generation of funds by the company and how much would have to be obtained from outside the firm.

iii) Developing the best plans to obtain the external funds needed.

iv) Establishing and maintaining system of financial control governing the allocation and use of funds.

v) Formulating programmes to provide most effective profit-volume cost relationship.

vi) Analysing the financial results of all operations, reporting the facts to top management and making recommendations concerning future operations.

vii) Carrying out special studies with a view to reduce cost, improve efficiency and profitability.

viii) Carrying out feasibility studies and preparing project reports.

In regard to capital expenditure relating to new projects of expansions, feasibilities and detailed project report are to be prepared by the Management and these should be examined by the Finance Department to ensure that:

a) The capital expenditure prepared would be in furtherance of the objectives for which the enterprises have been established.

b) The expenditure proposed to be incurred is reasonable.

c) The proposal is economically viable

d) The financial resources for meeting the expenditure would be available.

ix) Budgeting: The Finance Department is the principal coordinating office for:

a) preparation of long-term operating budget covering a period of 10 years indicating the likely profit/loss during the period:

b) preparation of long-term capital expenditure budget covering a period of about 10 years and advise the management in regard to the timing of the incurrence of capital expenditure;

c) reporting on capital expenditure budget in regard to the expenditure that is expected to be incurred during the year;

d) preparation of the annual operating budget;

e) preparing the budget returns that flow out of the comprehensive budgetary system in operation;

f) analysing variations between budget figures and the expenditure incurred and comment on the causes that have led to such variation to facilitate the management to control expenditure by application of the principal of exception.

g) preparation of Cash Flow Statement indicating the inflow and outflow of cash during the period;

h) assessment of the total working capital requirements for the fiscal year and advise the management regarding the sources of financing and the working capital requirements;

i) assisting all the matter relating to purchase of requirements, raw materials, and laying down suitable procedures for purchase to ensure that adequate control is exercised over such purchases and that there are no uneconomic purchases;

j) advising chief executive on the pricing policies to be followed in the organisation – in regard to selling prices of products, inter-departmental issues, charging of material to jobs, etc.

x) advise the management on all service matters having financial implications such as scale of pay, dearness allowances, bonus, gratuity etc.

xi) organising an effective internal audit department and process the reports submitted by the internal auditor and placing the same before the Board through the chief executive.

xii) ensuring that the annual accounts are prepared in time according to provisions of law on all matters relating to the statutory audit and the audit by the Comptroller and Auditor General.

xiii) acting as custodian of the cash of the company, and in discharging the duty, the Department has to ensure that adequate financial control is exercised over the allocation and use of funds in accordance with the approved programme and budgets and with due regard to polices and regulations laid down by the Board. The Department may take up from time to time special studies, particularly with reference to cost reduction, economies in administration and other overhead expenditure and such other areas which have bearing on profitability of the company.

xiv) furnishing the management prospective costs of the products to enable the management to determine the optimum product etc.

xv) preparation of the following reports:

a) Resources employed.

b) Summary of the cash flow for the quarter.

c) Forecast of the cash flow for the next quarter

d) Capital expenditure incurred during the quarter compared with sanctioned amount, budget estimates, etc.

e) Profit and loss account for the quarter

f) Ratios of (i) overheads to sales, (ii) stocks to sales, (iii) debtors to sales, (iv) capital employed to sales.

g) Expenditure on special items of overhead.

h) Cost of production of items completed during the period together with variations, if any with standards established.

i) Any other report prescribed by the undertaking relating to financial and cost matters.

Investment Management

Investment proposals for the establishments of new units and for the expansion of existing units emanate either from the Ministries and the Departments of the Government or from the enterprises proposing expansion and growth. The broad nature of investment is determined by the priorities indicated in the national plan. The Government exercises a measure of control on the size and pattern of investment in PEs by reserving to itself the power to approve capital outlays exceeding certain financial limits. It also exercises control over such investments through scrutiny and approval of the annual capital budgets of the concerned enterprises. Past three years have shown as increasing trend in the outgo from the union Budget to PSUs. The outgo for the year 2002-03 Rs.135559.72 crore and was more as compared to 2001-02.

Working Capital Management

The management of working capital in these enterprises poses problems both the respect of individual components of current assets and the volume and maturity of current liabilities. These enterprises do not have a well-defined policy in regard to the working capital management.

The working capital requirements of the PEs are generally met through cash credits and advances arranged with the State Bank of India and other Nationalised Banks. The total amount guaranteed during 2002-03 decreased substantially by 15.57 per cent as compared to be previous year but when compared to 2000-01 it had increased by 7.68 per cent.

Table 17.1 : Guarantees Given by Central Government

(*Rupees in crore*)

Guarantees	Amount Guaranteed During			Guaranteed Amount Outstanding As on March 31, 2003
	2000-01	**2001-02**	**2002-03**	
1. Cash Credit from State Bank of India (SBI) and other Nationalised Banks.	1580.65	1747.80	2032.10	1426.13
2. Loans from other sources	8442.75	8677.07	12552.84	16310.36
3. Letter of Credit Open by SBI in respect of imports	2297.35	1326.73	481.36	553.48
4. Payment obligations under agreements with foreign consultants or contractors	2041.11	6563.27	397.84	704.72
Total	**14361.86**	**18314.87**	**15464.14**	**19004.72**

Source: *http:/www.cagindia.org (2004)*

Financing decisions occupy a key place in financial management of PEs. The Government as the owner of PEs has contributed a major share in the investments on these enterprises. As per the audit reviewed accounts of 276 PSUs, the equity investment of the Government of India and loans given to them amounted to Rs.1,03,388,.56 crore and Rs.72,478,.50 crore respective. The details are given in *Table 17.2*

Table 17.2 : Investment in Central Government Companies and Corporations

(Rupees in crore)

Source	As on March 31, 2003			As on March 31, 2002		
	Equity	**Loans**	**Total**	**Equity**	**Loans**	**Total**
Central Government	103388.56	72478.50	175867.06	97533.55	76596.44	174129.99
Central Government companies/corporations	13141.45	11246.42	24387.87	11529.45	11737.94	23267.39
State Governments/ State Governments companies/ corporations	2624.48	6667.08	9291.56	2411.75	5154.14	7565.89
Financial Institutions/ others	3687.67	158292.65	161980.32	2831.27	132774.95	135606.22
Total	122842.16	248684.65	371526.81	114306.02	2226263.47	340569.49
Percentage of Central Government Investment	84.16	29.14	47.34	85.33	33.85	51.13

Source: *http:/www.cagindia.org (2004)*

PEs have evolved over the years systems and procedures to manage the investments in inventories, sundry debtors, loans and advances, and cash and short term securities. Similarly, current liabilities as a component of sources of funds have started receiving comparatively greater attention. Despite these welcome changes, there has been no perceptible change in the locking up of funds in working capital. On average current assets exceed about six months' turnover and the net working capital (excluding funds obtained to finance working capital requirements of the Food Corporation of India) constitutes about three months turnover. Some of the contributory factors to the exceed build-up of working capital include its slow transmutation, unfavourable credit management, absence of motivation to reduce investment in different components of working capital and lack of awareness concerning the current techniques of working capital management.

Finance and Capitalisation

The capital structure in PEs is formulated on the basis of 1:1 debt – equity mix suggested by the Government of India in 1961. Such a mix has been vehemently opposed by PE Managers. The committee on Public Undertakings and the administrative Reforms Commission lent their support to the contention of managers. Those who support the Government policy argue that differentiating between equity and loans is immaterial in the case of PEs as both the dividend and interest are a transfer entry. This argument does not stand ground when PEs approach the capital and financial markets for raising bonds and public deposits. Moreover, this argument is based against the basic principle of financial motivation to optimize the capital structure. The dependence of PEs on the Government financing is almost total. In the face of challenges place before PEs, it is only a matter of time that they would be required to reduce considerably their dependence on the government. As a result, they would have to approach the capital markets in future constantly.

Financial Controls

Financial controls include internal audit, budgeting and financial reporting systems. Internal audit is a weak link in the chain of financial controls in PEs. According to Section 619 of the Companies Act, 1956, a Government company should make available its accounts to the Comptroller and Auditor General of India for his review. The Comptroller and Auditor General of India in his audit reports on PEs has always held the view that PEs should strengthen their internal audit. However, the progress in this regard has been inadequate. Among other things, the absence of internal audit manuals, inadequate staffing and lack of expertise have hampered the quality of internal audit in PEs. The internal audit team comprises of experts mostly from accounting and finance area. This activity should be carried out by an inter-disciplinary team of economists, engineers, management experts and finance and accounting personnel. In large enterprises internal audit often does not commensurate with their size. The Steel authority of India Ltd., Maruti Udyog Ltd., Indian Rare Earths Ltd., State Trading Corporation, Heavy Engineering Corporation and the Indian Tourism Corporation could be cited as cases in point.

17.4 RELEVANCE OF MARKETING TO PUBLIC ENTERPRISES

In the early stages of planned economic development, PEs, by way of engaging them in such activities which are of strategic importance, where the gestation periods are longer coupled with heavy investment, were used as instruments of economic development. Of late, however, one may find that PEs are also engaged in activities where heavy competition exists. There has been a gradual shift from investment in the manufacture of capital goods to the manufacture of consumer goods which are normally in a competitive environment. At present one would find that competition not only emerges from private sector but also from within public enterprises. Examples are both in capital equipment, machine tools and also in consumer goods, electronic goods.

Further from various published literature on performance of some of the central PEs, it would be clear that though these PEs were once upon a time in a monopoly situation, over a period of time due to changed economic and political environment, have been pushed into a competitive environment.

It may be useful to review the 'growth cycle' concept. This concept emphasizes that over a period of time., PEs may have to shift from sheltered phase to self propelling phase through an intermediary phase called supportive phase. The sheltered phase is characterised by greater dependence on government for its performance, the supportive phase is characterised by the fact that the enterprise strives to survive on its own, whereas the self-propelling phase is characterised by total independence of the enterprise by developing within itself competitive capabilities for its own survival and growth and also contributing to the Nation's productivity by way of generating surpluses. At the juncture of transformation from sheltered to supportive phase, marketing becomes more relevant since at this stage enterprises become more conscious of cost effectiveness and efficient functioning of the organsiation in more and more competitive environment.

Marketing plays a dynamic role in stimulating output and consumption, the essential of economic development. On the one hand, it creates and activates new demand by improving and transforming product or processes and generating new customers and needs. On the other hand, it also guides enterprises to new production opportunities and encourages innovation and improvement in response to demand and prices. It is the most important multiplier of economic development. In the marketing management of PEs, conceiving right deserves priority attention. One has to view the problem not as a series of specialised activities and related to product mix, but as a continuous thought process, moulding of the present situation with the desired forms of the future. A fair match between the capital and output would deliver the goods to the public at large, even at the desired time and at affordable prices. Such arrangement would pave avenues for profit generation and welfare channelisation. In the context of the above analysis, let us now study various aspects of marketing as applicable to PEs.

17.5 MARKETING CONCEPTS IN PUBLIC ENTERPRISES

Public enterprises are complex organisations. They have many facets – they can be seen as economic entities, administrative systems or political configurations operating a wide range of business settings. They are exposed to turbulent environments both internally and externally and therefore, present challenging tasks. The experience in the functioning of PEs has adequately demonstrated that the social purpose cannot be adequately achieved unless the functioning of the organsiation as an enterprise is successful and generates adequate returns on the investment. In order to cope with the ever-changing techno-economic environment PEs have to rely on the marketing concept. The process of marketing is mainly concerned with the exploration, analysis of consumer wants and meeting them. The marketing concept refers tot the basic philosophy of marketing. In order to be a successful enterprise, a PEs marketing philosophy must emphasie (1) customer needs and desires, (2) goal achievement, (3) societal requirements, and (4) a systems approach,. Essentially, the marketing philosophy revolves round the 'customer' and 'customer satisfaction'. The philosophy underscores that an enterprise’s policies should stem from the customer’s needs. In understanding and implementing the ‘Marketing concept’, it is not simply enough that it has got the top management support and approval, but the concept should be communicated to every nook and corner of a PE. The entire PE must be viewed as a customer creating and customer satisfying organisation.

Business Definition

On most of the occasions, it is rather difficult to define an enterprise’s business in precise terms. While doing so, many enterprises tend to become myopic and place heavy emphasis on the products and markets they presently serve. In the ever-changing world of technology and consumer needs, the myopic view would make the enterprise outdated and obsolete. In order to exploit the opportunities that future would usher in, an enterprise has to define its business in its broadest possible sense. Having established a few decades back, each PE may reassess its own character of the business and redefine on the basis of strengths gathered over time. This vision would add very much needed vigour and strength to the management of PEs.

Target Market

It would be a complicated situation if a PE without an eye on the target market, gets established and continues to produce merely on the basis of servicing social commitments. Each and every PE has to have its clear target group distinguished from the mass market which is likely to be most heterogeneous in character. It is important to see that a marketing strategy focuses on some target customers, with a view to develop a more satisfying and profitable marketing mix – one that will give the enterprise a differential advantage over its competitors.

Marketing Mix

Consists of Marketing mix commonly known as 4P mix, product mix price-mix, place-mix and promotion-mix, which are now discussed in brief in the context of PEs.

Product-mix

In the PEs, we find inclusion of a number of infrastructural industries, services, trade and utility undertakings. All these contribute a lot to the production factor. Peter Drucker opines that ‘Marketing might by itself goes far towards changing the entire economic tone by the existing system without any change in the methods of production, distribution of population or income’. The PEs have full support of government and therefore these enterprises have good scope to modify their policy decision in order that the product line has a correlation with customer orientation.

The infrastructural industries such as machine manufacturing industries face all sorts of difficulties, specially while excelling the global competition. The industrially advanced countries of the world have been successful in initiating qualitative transformation, specifically through technological sophistication and therefore, their products are not only superior in quality but also affordable to the industrial users or prospects.

In the utility undertakings, we find communication, transportation, electric and water services. For example in the case of rail transportation the product-mix decision with regard to quality of locomotives, quality of coaches and wagons need special treatment.

In the services sector, we find services like banking, insurance, consultancy, tourism etc. These services one way or the other directly related to the social welfare. In the banking sector, for example, the product-mix decisions with regard to expansion of credit facilities, simplification of loan-granting processes and repayment modes need special attention.

Place-mix (Distribution Channel): PEs are engaged in providing variety of goods and services to different customers and the type of channel varies across the type of PEs.

The PEs marketing consumer on durables such as bread and bulbs need to have an intensive channel network, which means that all the points of purchase have to be adequately stocked with the products. Since a number of alternative brands are available to the consumer, there is a problem of consumer shifting his/her loyalty in case of non-availability of the particular brand.

In the case of PEs marketing consumer durables such as automobiles, refrigerators etc., there is a need for having selective distribution system. The products may be marketed through the showrooms set-up by PEs themselves or they may distribute through a dealer network. While adopting dealer network some aspects such as (1) differential advantage of proximity of customers, (2) strategic deployment of stores in terms of market coverage, area potential, competition, and (3) efficiency in handling customers etc, are required to be considered for success in distribution. For the PEs marketing industrial products, it is necessary to have sound personal selling. By and large, these PEs have to employ direct distribution or at the most with an agent in between the PE and the buyer.

In India, the economic activities are centralised in and around the metropolitan cities and so majority of the wholesale trade is found in these major cities. Eighty per cent of our population live in the rural areas, PEs are required to take lead and establishe retail and wholesale outlets in the rural areas for different products. In these cases, to overcome the problem of economies of investment and rate of return, multipurpose distribution centres, as adopted by Indian Oil Corporation, may be followed. Indian Oil Corporation not only sell petroleum products at the petrol pumps, but also cater to the farm requirement by making available items like fertilizers, pesticides, quality seeds etc. Besides this, the PEs are required to make available, other essential commodities like steel, cement etc., with a scientific transport and storage system in the rural areas.

Price-mix: The most paradoxical aspect is the pricing management in PEs. The mounting social costs have been affecting the pricing decisions of PEs resulting from which one finds problems like cost-price-squeeze, decelerating rate of productivity and profitability, growing cases of sickness etc.

Hansan says, "The price policies pursued by PEs need to be directed by the government towards the fulfillment of certain primary economic aims viz., (a) maximum utilization of the existing stock of capital, (b) accumulation of the project rate, (c) the stimulation of certain types of consumptions at the expense of others, and the provision of the strongest possible incentives to efficiency". In the context of Indian PEs, a few other which get priority attention are:

a) the principle of maximum social advantage, and

b) the offering of services at subsidized prices.

Pricing in public enterprises differs from that in a private enterprise in that it has a macro motivation, both conceptually and operationally. The propriety of a given price in the public sector is evaluated in terms of its inter-enterprise and inter-industry implications, such that it turns out to be good or efficient from an overall point of view. And the power to give effect to an appropriate pricing structure is derived from the governmental prerogative of giving directives to the PE managements, which is often exercised informally, without recourse to a statutory directive.

Promotion-mix: It is an important aspect of marketing-mix. It is an attempt to stimulate sales by all the three sources of communication viz., personal communication, impersonal communication and persuasive communication. The personal communication is personal selling, the impersonal communication is advertising and the persuasive communication is the promotional measures which induce the prospects. For improving turnover, PEs need to make suitable efforts for the designing of the promotion-mix. The personal selling or advertising has been successfully utilized by some of the leading PEs such as Hindustan Machine Tools (particularly the watch division), National Textile Corporation (NTC), seems to lack its share in PEs. In a competitive economy, the PEs, like private enterprises, have also to think or plan in favour of persuasive measures. In the rail and air services, we find these persuasive measures. Although these enterprises are in a position to expand their business without offering any incentives to the prospects or the actual users, however they do such with the ultimate aim of projecting their image.

Market Segmentation

Market segmentation begins with distinguished customer's needs or interests. It is the sub-dividing of a market into homogenous subsets of customers, where any of these subsets may be conceivably selected as a market target to be reached with distinct marketing mix. A large number of variables, including geographic variable and buyer behaviour variables can be employed market segmentation.

The other variable employed in marketing strategy is the benefit segmentation variables, in which buyers are sub-divided relation to various benefits that they are seeking from a particular product.

There are different approaches a PE might choose to play after successful segmentation. One alternative is to have one product and one marketing mix for all segments referred to as 'undifferentiated marketing'. It may also have one product with several mixes for the relevant segments, called as 'particularized marketing'. Concentrated marketing' involves one or few products and one mix for open segment. Another strategy may be to employ 'differentiated marketing' which consists of several products and several mixes aimed towards a number of differentiated market segments.

Marketing Research

Marketing Research is identified as the systematic collection, analysis and interpretation of marketing information within a specific organisation for the purpose of marketing planning, control and problem solving. Marketing research improves the quality of marketing decisions and the organization's interaction with its environment.

Marketing research plays an important role in PEs. As already discussed, a PE may be defined as a government owned organisation which serves specific public interests through the economic activity of production and or marketing of goods and services. In addition, PEs are differentiated from governmental units in that PE operations involve the investment and use of funds on which a return is expected, which means commercial accounting is imposed on PEs.

In building marketing strategy, which houses strategic elements concerning marketing mix, product, price place (distribution), promotion, power and public relations PEs need to rely on efficient marketing information system.

17.6 PRODUCTION SYSTEM

Production is a vital system of any manufacturing organisation. A system as you might know, is a composite of equipment, skills and techniques capable of performing an operational role. The operational role entrusted to production system is to produce goods of economic value which may be capital goods or consumer durables or consumption items. Another aspect of a system is the 'existence of two' or more components or sub-systems which are interacting, interdependent and interrelated. Together they constitute a system which is a composite whole.

The components of a production system are men, materials, machines and methods. The methods include technology and techniques. The main sub-systems of a production systems are: (i) Production planning and control, (ii) Materials procurement and inventory control including warehousing and transportation management, (iii) Quality, (iv) Maintenance management, (v) Energy management, (vi) Safety management and house-keeping, and (vii) Research and Development.

17.7 PRODUCTION MANAGEMENT IN PUBLIC ENTERPRISES

The 67th Report of the Committee on Public Undertaking; (CPU) which was submitted to the Fourth Lok Sabha discussed at length various production-related problems of public undertakings. This report, entitled 'Production Management in Public Undertakings, pinpoints main problems as under utilization of capacities, lack of cost and quality consciousness and neglect of preventive maintenance. Since the resources are invested in public enterprises towards creating productive capacities, it is necessary to ensure optimum utilization of these capacities. Low capacity utilization has been a prominent feature of PEs in the country. *Table 17.3* highlights the extent of capacity utilization in percentage in PEs.

Table 17.3 : Capacity Utilisation in Public Enterprises

Capacity utilization in percentage	No. of Public Enterprises		
	2000-01	**2001-02**	**2002-03**
0-50	3	4	2
50-100	20	22	19
More than 100	10	9	13
Total	**33**	**35**	**34**

Source: *http://www.cagindia.com (2004)*

How to Improve Capacity Utilization?

Capacity utilization is not merely a measure of performance, but it must be realized that better capacity utilization is an important way to improve overall performance of the PEs. The main factors affecting capacity utilization in PEs are defects in capacity planning, power constraints, infrastructural bottlenecks, raw material shortages, marketing problems, poor maintenance and managerial shortcomings. The government and the managements of the enterprises concerned have initiated several measures to improve the capacity utilization. These include modernization of plants and upgradation of technology, change in product-mix, provision of balancing facilities, training and manpower development, export promotion, streamlining the systems and procedures, better maintenance of machinery and equipment, use of Operational Research and Industrial Engineering techniques, development of ancillary units, linkages and tie-ups with suppliers and markets, increasing productivity through better industrial relations and incentive schemes, improvement in managerial and operational efficiency and strengthening of participative mechanism at all levels. A few other measures towards better utilization of capacity are banning of imports when indigenous capacity has been created, simplification of procedures for import of essential spares, components and raw materials as also capital goods, and timely provision of funds including foreign exchange required for diversification of procedures for import of essential spares, components and raw materials as also capital goods, and timely provision of funds including foreign exchange required for diversification, modernization or rehabilitation. Another measure to improve public enterprise performance in all operational areas is ensuring continuity in top management and giving them sufficient autonomy and powers. The government should closely monitor and review the PE performance, but the administrative ministries should not unnecessarily interfere with the operational management of the enterprises under their control. Since the enterprises differ vastly in their nature, operations as also their situation, the government or its agencies such as Bureau of Public Enterprises (BPE) should provide only broad guidelines. Flexibility should be considered as a desirable feature and 'entrepreneurship' should be encouraged. System approach is useful in cost control because the control of the total cost clearly depends upon the control of the individual components of cost. The right approach to cost reduction is through value analysis (also called value engineering). It is an organised effort to identify unnecessary costs. The technique enables the undertaking to enhance the value or utility of its products with a little or no addition to its costs or reduce the costs without bringing down the value of the products in any manner. Efficient and accurate system of cost accounting and cost control are the hallmark of a good management. "All PEs should make concerted efforts to bring down the cost of production to a fair level by setting right deficiencies, if any, in organisations and developing cost consciousness at various level of management". Stated CPU in its 69th Report to the 4th Lok Sabha. It had also recommended introduction of physical norms for raw material consumption.

Role of Industrial Engineering

Industrial engineering is one of the fastest growing fields of applied knowledge which offers tremendous scope for application in public enterprises. It essentially aims at improving the productive efficiency in industrial undertakings and covers quite a broad area. Work study and systems engineering are important constituents of industrial engineering. Management Information System (MIS) also broadly comes under the purview of industrial engineering. Work study deals with the problems of how a particular job should be done (method study) and also how much time a job should take for completion (work measurement). Systems Engineering is the process of developing large scale and complex man-machine systems for successful integration of operations. MIS is both a decision-aid and a management control tool and helps in achieving better coordination among different functional areas, management levels and operating divisions. Industrial engineering can also help the managements of public enterprises in improving the production planning and scheduling, introduction of appropriate incentive schemes, elimination of wastage and simplification of procedures. It is essentially a fact-finding and problem solving discipline and PE managements can gain immensely by making full use of this staff function. The CPU recommended that Industrial engineering departments in the PEs should be strengthened and account social overhead and multiplicity of objectives, there cannot be any concessions with regard to productivity and production targets. There is a great need for improving capacity utilization in our public enterprises. There is also an urgent necessity to bring down inventory levels and improve plant maintenance. All these call for proper systems and conscious effort by management and workforce. Production function needs to be effectively integrated with overall framework of the organisation, its goals and objective and it should be given its due importance in the Public Enterprise set-up so as to achieve excellent operating results.

Materials Management

Materials constitute vital input in any production process. Materials Management covers are aspects of materials function including materials planning sourcing, vendor rating and vendor development, purchasing, inventory control, receipt and inspection of raw material, components and sub-assemblies, store keeping, materials issue and accounting, management of spares, disposal of scrap and surplus, packaging and is patch of finished goods etc. Some critical aspects of materials function with special reference to India PEs are as follows:

Materials Planning: It involves estimating the requirement in terms of quantities and timing of various materials components and stores. For efficient functioning of materials department, proper coordination with production and marketing departments is very essential. Materials function also has a very close interface with finance and quality functions.

Purchasing: The purchasing wing of materials management department is responsible for the efficient and economic purchases to meet the materials requirement of the enterprise in all its complexity. The purchasing should aim at procuring right materials of the right quality and in right quantities at the right time, at the right price and from the right source.

Inventory Management: It covers many aspects of materials function such as fixing higher and lowr stocking limit for each item, determining its EOQ, calculating the reorder levels and establishing lead times. Inventories are an indispensable part of operating cycle of all manufacturing organisations. Inventory management can be the key to the success or failure of a manufacturing firm because excess inventory holding leads to excessive carring cost on account of interest, storage and handling charges etc. Therefore, it is necessary for the PEs to maintain a certain optimum level of inventory. Though the optimum level of inventory varies from industry to industry, generally it is considered that the value of inventory as a percentage of annual consumption should not exeed 33 per cent and the value of finished goods to net sales might be about one months sale, 8.33 per cent. At various levels (in percentage) in some PEs.

Table 17.4 : Holding of Inventory at Various Levels (in percentage) in PEs

Percentage of Inventory	Ratio of inventory of Raw Materials to consumption of Raw Materials (No. of PEs)	Ratio of inventory of stores and spares of consumption of stores and spares (No. of PEs)
0-33	105	22
33-50	7	17
More than 50	22	123

Source: *http://www.cagindia.org (2004)*

In around 115 PEs, the value of surplus, obsolete and non-moving inventory as on March 31, 2003 was RS.367.82 crore in 46 PEs, Rs.689.63 crore in 44 PEs and Rs.1743.30 crore in 77 PEs respectively.

Activity

Name one example each of infrastructural enterprises, utility undertakings and service sectors and suggest ways of modifying their product mix.

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17.8 SUMMARY

Financial Management is an important component of the total management process in PEs. The finance objective in PEs may swing between the retention of net worth to its maximization. These enterprises however, do not lay down their finance objectives normally. PEs discern the trend to develop suitable organisation for their finance function. The state of the art financial management in PEs shows that they have to go a long way to tone up their financial functioning. There is an immense scope to economise on the front of fixed assets and working capital. There is a need to strengthen the financial control mechanisms. The approach to financing and capitalization need a new orientation.

Like finance, marketing is inevitable to public enterprises in India. In order to effectively sub serve the purpose of public Enterprise, each public enterprise must be viewed as a customer creating and customer satisfying organism. In this unit various dimensions of marketing management have been discussed.

The Government and the people of India have made huge investments in the production systems of the public enterprises, thus creating valuable social assets. These social assets must perform well and transform input resources into higher values outputs more efficiently. Production function needs to be effectively integrate within the framework of the organisaton.

17.9 SELF ASSESSMENT QUESTIONS

1. Discuss the process by which we can set the finance objective for PEs in different categories.
2. Critically evaluate the working of finance function in PEs
3. Try to develop marketing concept for the following:
   a) Road Transport Corporations
   b) State Electricity Boards
   c) Municipal Corporation
4. Having understood the concept of marketing-mix try to develop marketing mix, strategy for the following:
   a) Tourism and Development Corporation
   b) State Financial Corporation
   c) Transport Organisation
   6) Identify the various factors which influence/affect capacity utilization in PEs

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