PERFORMANCE OF PUBLIC SECTOR UNDERTAKINGS IN MEGHALAYA

(A Case Study With Reference to Mawmluh-Cherra Cements Limited)

BY

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DEPARTMENT OF ECONOMICS
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A DISSERTATION

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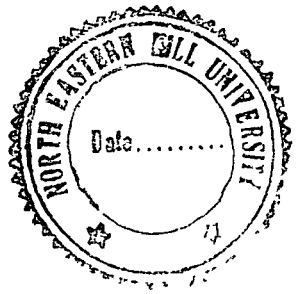

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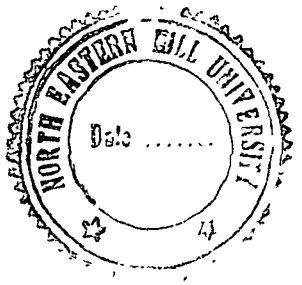

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This is to certify that this dissertation entitled **Performance of Public Sector Undertakings in Meghalaya : A Case Study with Reference to Mawmluh-Cherra Cements Limited** submitted by Miss G. Sara Lyndem for the award of the degree of Master of Philosophy in Economics, is an original piece of work carried out by her under my supervision. This work or part thereof has not been submitted for the award of the degree of any other University nor has it ever been published anywhere.

The dissertation, in my opinion, is worthy of being considered for the award of the Degree of Master of Philosophy.

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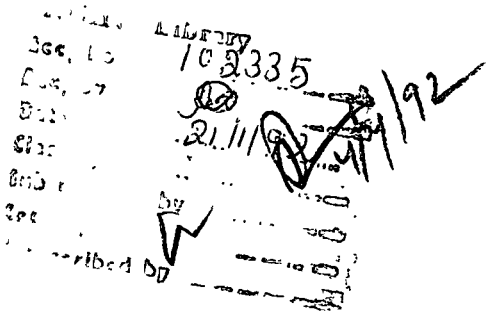

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CONTENTS

List of Tables

Chapter - 1

INTRODUCTION

Statement of the Problem

Public operation of industries under the caption 'Public Enterprises' is not a modern concept for it was not unknown even in olden times when the state authority embraced the establishment and operation of certain vital industries. Even in India, for example, during the days before its Independence, important industries like railways, posts and telegraphs and irrigation were all under Government operation.

Public enterprises in one form or another and in smaller or greater degree are found in any part of the world, whether it is a free enterprise economy or a fully planned economy. Today the debate whether to have a public enterprise or not is not at all important. What is relevant is: (a) the area of the economy or the sector that should be covered by public enterprises; (b) what should be the economic as well as social obligations of the public enterprises and (c) if profit is not the sole motive, what should be the other objectives.

Two more related and somewhat debatable issues that deserve attention are (i) what amount of control should be exercised by Parliament or State Legislature over a public enterprise and (ii) what should be the forms of organisation of public enterprises, for example, departmental undertaking or company type. It is difficult to proffer a unique answer to these questions, for appropriate answer would depend on the present status and efficiency in the performances of the economy in general and of its different sectors in particular.

In India the phenomenal growth of public enterprises has taken place against apolitical and ideological background. Right from the days of economic awakening, India had traditionally aspired socio-economic development in radical terms.

This also entails that public enterprises should make themselves responsible for building of overheads and external economies leading to growth in national savings and investments and in the availability of funds for governmental outlays for accelerating growth and development.

The rationale for establishing public enterprises in India is followed from the fact that they were meant : (a) to check private monopolies and concentration of wealth and income in the hands of few individuals; (b) to accelerate economic growth by helping or supplementing private sector enterprises whenever necessary; (c) to achieve a balanced regional development and (d) to generate economic surplus.

On the same rationale, the state of Meghalaya has also established a number of public enterprises. Among them the Meghalaya State Electricity Board (MSEB), the Mawmluh-Cherra Cements Limited (MCCL) and the Meghalaya Transport Corporation (MTC) deserve special mention. A general look into the latest Industrial Policy of Meghalaya (1988) shows that the economic potentiality is very high since the state is endowed with resources of various forms. Industrialisation is, therefore, viewed as an instrument for bringing about a rapid economic development by harnessing the rich potentiality.

Objectives of the Study

It will be our endeavour to study how far the public sector enterprises in Meghalaya have succeeded in achieving the basic social and economic objectives as pointed out earlier viz., in accelerating economic development, in generating economic surplus and particularly in bringing about, as spelt out in the

1988 Industrial Policy Resolution of the Government of Meghalaya, "an industrial culture amongts the people of the state". This will be done through performance evaluation of the enterprises as detailed in methodology below.

Scope of the Study

The scope of our study would be limited to the detailed study of one important public sector enterprise, viz., Mawmluh-Cherra Cements Limited (MCCL). This is a Government of Meghalaya undertaking, initially set up by the Government of Assam in 1964, later taken over by the Government of Meghalaya. The existing (1985-86) share capital in the form of equity and preference of the enterprise is about 8.5 crores with an employment strength of about 760 persons. As one of the few premier and old public sector undertakings in Meghalaya, it is expected that a detailed study in the working of the enterprise and particularly an evaluation - its physical and financial aspects - would reveal how far the enterprise has achieved the objectives for which it was set up.

Methodology

As stated already, one of the objectives of our study would be to examine the extent of surplus, if any, generated by the public enterprises in general and the MCCL in particular. In the light of this, a study for the MCCL would be made for twenty years, that is, from 1966 to 1986 by examining the management's published documents supplemented by our own investigation and observation of state legislative bodies like the Committee on Public Undertakings, etc.. Besides, interviews with the officials of the enterprise and the state government as well as with the consumers would be taken up, in order to avail

the relevant information.

Secondly, financial performance of the enterprise would be studied with reference to current asset/current liability ratio, quick ratio, sales-inventory ratio and debt-equity ratio.

Finally, along with the financial analysis, endeavour would be taken to study the budgeting principles, price formulation policy and other non-financial performance of the enterprise.

The aforesaid analysis would be carried out with the help of time series data of the enterprise such as financial statements, profit and loss accounts, annual reports, etc.

Chapter - 2

EMERGENCE OF PUBLIC SECTOR ENTERPRISES IN INDIA

Introduction

The history of economic development of any country suggests a close relationship of growth with industrialisation. This is because production of primary goods yields much less in terms of value than what would be the case when the same goods are processed, modified and finished as final consumer goods. The latter activities, that is to say, processing, modifying and finishing involve industrialisation. Therefore, it is believed that unless a country is developed industrially, it remains stagnant when backwardness predominates, usually, in the forms of unemployment, poverty and illiteracy. In the process of industrialisation, government has a crucial role to play through its enterprises in bringing about a system of economic development in which the major part of the national resources are used to develop a technically upto-date diversified national industry capable of assuming a high rate of growth for the economy as a whole and of overcoming economic and social backwardness.[1]

The government's participation in the economy through, inter alia, industrialiation has emerged as the result of the failure of the doctrine of laissez-faire which implied absence of government aid and potection to manufacturing and to economic development.[2] Further since laissez-faire passivity virtually guaranteed an absence of spontaneous industrialisation[3], state enterprise thus becomes one of the important forms of state participation in the development of industry and its necessary infrastructure. From this, it becomes apparent that the state is responsible for providing a sound basis for economic reconstruction of any country by way of raising national income, attainment of near-full employment and eradication of poverty. In short, the state must strive to establish a 'new economic order' through industrialisation.

State participation in national economic activity, via, its enterprises can come into being in one or the other of the three forms, viz., through nationalisation of erstwhile private enterprises, through creation of enterprises de novo or through governmental participation of investment in a mixed enterprise. It is worthmentioning that the causes for the emergence of state or public enterprises are not same in all countries. In the developing economy setting of new enterprises assumes importance in order to quicken the process which the developed countries have taken a century or so to complete. It is for this purpose that in the developing country like India, for example, most of its public enterprises in basic and key sectors were set up by the state. But there has been nationalisation as well in the field of banking, insurance, transport, coal and oil production.

Generally, the developing countries have for a long time remained in a state of economic stagnation. The countries in the western world have, on the other hand, for many decades developed rapidly. It is obvious that the undeveloped countries could not go through the same process (mainly through private initiative) which had industrialised Europe and America. It is believed, therefore, that public enterprises would be instrumental in bringing about rapid industrialisation in improving the welfare of the people and ultimately in catching up with the developed countries of the world.[4] In India, in particular, changes that have occurred resulting in its political independence on 15th August, 1947, brought in its train liquidation of the colonial power. This led the Indian national leaders to become aware of the paramount importance in bringing about an upswing change in the country economically. India had been a classic colony of the British

Empire and under the Crown Rule, the British administrators in India remained apathetic to industrial growth. India inherited a highly fragmented and stagnant economy with inadequate infrastructure, technological skill and above all state initiative.

To extricate the country from the low equilibrium position, the Indian national leaders envisaged a mixed economic system of socialistic orientation. The central idea of such a strategy was that economic independence could be achieved only if the state plays an active part in the process of industrialisation based on economic planning, in coordination with private enterprises. The state further assumed upon itself the task of promoting economic growth and ushering in social justice by acquiring the commanding heights of the economy. At the same time the state offered full scope to private initiative. Generally speaking, the main objective of setting up of public sector enterprises was, inter alia, to create conditions necessary to alleviate the basic economic weaknesses inherited from the past as a result of the ruination of the traditional industry including agriculture.[5] Following Soviet example, it was held that the State control of the national economy would help in fulfilling the planned objectives by executing, coordinating and influencing different policies in a desired direction.

Rationale of Public Sector Enterprises in India

The realisation of Independence of India in 1947, initiated an urgency for rapid economic development. This urgency found its voice in the declaration made by the Planning Commission that India's social stability, its future as a democracy and its freedom as a nation depend upon the speed with which it pushes the pace of its social and economic growth within a time frame.[6]

Moreover, India having pledged to adopt a socialistic pattern of society[7] as one of its national objectives requires that the state must take greater initiative to develop the nation economically by creating space for industrialisation. In fact, the state initiated to take into its own hands the basic industrialisation of the country on the plea that private investors would not like to come forward to venture in any fields which do not promise a quick return. The state, therefore, while providing scope for private investment in residual sectors[8], seeks to speed up development of the country by assuming responsibility in establishing key and basic industries of strategic importance not for profit-motive alone but more, for bringing about an overall economic welfare in the society. No wonder, public sector enterprises are being regarded as catalyst and kingpins necessary to stimulate private enterprises, to supplement private enterprises by way of filling up gaps left open by the latter and to coordinate with private enterprises in strategic projects to raise the nation's productivity. It is in this context that the government assumed the commanding heights of the economy for regulating and directing private sector enterprises towards the national development stream in accordance with the objectives set out in the plans.

The quest for rapid development in India has motivated the Indian planners to accord high priority to the development of basic and heavy industries. Consequently, government investments for overheads began to flow in important areas such as transport, communication, power plant, irrigation, iron and steel, fertilizers, machine tools and petro-chemicals. A large number of enterprises have come up in the public sector.[9] Public ownership of enterprise thus became a matter of social and economic necessity. Based on national coordinated planning,

public enterprises could mobilise the existing sources of investment and find scope for new ones. They could also rationally use labour and financial resources besides permitting opportunities for other diversified industries. It can be contended that rapid expansion of public enterprises stands to serve a two-fold purpose. While on the one hand, it helps to remove certain basic defficiencies in the economic structure, it, on the other hand, reduces the scope for concentration of economic power in private hands.[10]

It is noteworthy that great emphasis on the development of basic and heavy industries must be given, in order to provide a sound foundation for their future development with undue dependence on external help.[11] This, therefore, presupposes that basic and strategic industries must spearhead self-reliance by building within the country productive capacity, adequate enough to provide a firm base for development of new consumer goods industries.

The rationale for establishing public enterprises in India can be said to have been drawn from a definite social and economic philosophy as enshrined in the Directive Principles of the Constitution of India, which sought to overcome capitalistic form of growth, motivated merely by profit motive which impeded and distorted equitable distribution of social benefits.[12] The major outlines of the rationale of public enterprises in India may be represented as follows:

a) Public Sector Enterprises : For Reducing Economic Concentration

The expansion of public sector enterprises has been necessitated by India's pledge for economic equality by preventing concentration of economic power in few areas of the economy, and thus helping to bring about a more even distribu-

tion of economic power.[13] India has been witnessing failure of market mechanism which helped enhancing inequalities in income and wealth in the country. In this aspect, public sector enterprises are expected to act as a leveller by way of proper utilisation of public resources without enriching any particular individuals. Public enterprises could also be expected to device proper policies for regulating incomes and salaries of the employees of the enterprises. Besides, public enterprises are deemed to be able to maintain surplus labour through readjustment of employment opportunities. The pricing policy of the public enterprises must be so designed as to benefit the lowest income groups.[14] In addition, public enterprises must seek to limit the property acquisition of individuals and thus checking the scale of material interests of private propertied class. Therefore, in taking upon itself the role of a catalyst, the government through its public enterprises could be expected to be able to maintain and regulate effectively any possible concentration of economic power in the hands of the few.

b) Public Sector Enterprises : For Reducing Regional Imbalances

Since the implementation of the Second Five Year Plan and the Industrial Policy Resolution of 1956, much emphasis was given to overcome regional imbalances. In this respect, public enterprises were being assigned a role to remove wide disparities in different regions in the country. For this purpose, the government introduced public enterprises as agencies of development in underdeveloped regions of the country.[15] To be able to launch successfully economic development in such backward areas at par with more developed regions of the country, the government deliberately supplies appropriate concessions in the form of financial

and physical overheads like banking and insurance, transport and power through its enterprises. This helps to expand employment opportunities by gradually drawing people from agriculture to industrial activities. This objective could be strengthened by placing emphasis on the development of small-scale and handicraft industries on equal footing with large scale industries.[16] This is expected to help greater absorbtion of surplus labour force from agricultural sector. With better facilities given to labourers through planned coordination in the industrial sector and through increased productivity, public enterprises could be expected to add to national output and consequently raise the purchasing power and aggregate consumption expenditure. Through this process, aggregate demand would be pulled up and through it more employment opportunities could again be created. Thus, the establishment of large scale public enterprises in coordination with small industries in backward regions of the country serves to help the government to achieve the twin objectives of income-creation and employment generation.

c) Public Sector Enterprises : For Surplus Generation

Another important rationale of public enterprises is to generate surplus or profit subject to fulfilment of other socio-economic objectives and to channellise it to national exchequer for further capital formation. It has been traditionally contended that public enterprises should bring about overall economic welfare. This, therefore, presupposes that 'profit maximisation' by public enterprises is not the only goal. There may be some enterprises which aim not at profit-maximising, but serve public interests by way of acting as a customer

service or as distributive agency. This is expected to benefit the public against exploitation by private sector whose sole aim is to maximise profit. It is the responsibility of public enterprises to bring about social transformation through promotion of technical and managerial skill in the desired direction, or technological self-reliance and generation of employments. Along with these objectives, however, public enterprises need not or rather should not be oblivious of generating surplus.

Public enterprises are no doubt required to generate surplus and give adequate return on investment. Unless public enterprises generate surpluses, it becomes difficult on the part of these enterprises to reinvest for further economic development. In fact, to sustain the development efforts, the state has to mobilise large funds. In this context, therefore, any surplus generated by the public enterprises is most welcome as it tends to relieve the burden of the public exchequer or dependence on budgetary sources. A surplus or profit may be ploughed back into investments for increasing social benefits and for its healthy impact on the community, besides helping to build the image of the enterprise. Viewed from this stand point, profits ploughed by public enterprises are not only necessary but desirable. It is for this reason that the planning commission envisaged a return of 11-12 percent on the capital employed[17], on the consideration that if the public enterprises are to play their assigned role, then conditions have to be created to enable them to generate resources for financi- further expansion and development.[18]

Growth and Pattern of Investment in Central Public Enterprises

The evolution of public enterprises in India is regarded as a milestone in the history of Indian Economic Planning. The Industrial Policy Resolution of 1948 had for the first time highlighted the importance of public sector enterprises in attaining the widely cherished goal of a socialist society.[19] Therefore, public enterprises have occupied a centre stage in the strategy of planned economic development. This could be seen from the phenomenal growth in the number of enterprises that have come up after Independence through successive Five Year Plans. This accompanied by a substantial growth in the amount of capital invested by the government in these enterprises would emphasise the predominance of public enterprises in the overall development of the country. A profile of the rate of growth of public enterprises may now be analysed. The quantum of investment and the number of enterprises have steadily increased with every Five Year Plan as may be seen in table 2.1.

Table 2.1

Central Government Investment in Public Enterprises (1951-1988)

Years	Investment (Rs. in crores)	Number of Enterprises
1950-51	29	5
1955-56	81	21
1960-61	953	48
1965-66	2,415	74
1968-69	3,902	85
1973-74	6,237	122
1976-77	12,851	155
1980-81	21,126	185
1984-85	42,791	221
1986-87	61,643	226
1987-88	71,299	231

Source : (i) Government of India, Public Economic Survey, 1984-85;
(ii) Government of India, Public Enterprises Survey, 1987-88.

In table 2.1, we see how rapidly public enterprises have expanded during the period of nearly four decades, that is, after the commencement of the First Plan. From a mere Rs. 29 crores in 1951 it has increased to Rs.71,299 crores in 1988. Similarly, the number of enterprises has increased from 5(five) in 1951 to 231(two hundred and thirty-one) in 1988. The growth of public enterprises received its impetus eversince the launching of the Second Five Year Plan and, more so, since the announcement of the Industrial Policy of 1956 also referred to as the Economic Constitution of India. Both these documents emphasised the importance of industrial development of the economy by laying a sound base in capital intensive heavy industries like iron and steel, machine building, heavy engineering, heavy chemicals, ship-building, railway equipments and producers' goods manufacturing industries such as cement, fetilizers, coal and oil. Since this period, public enterprises have been diversified into wider industrial as well as commercial activities. At present public sector covers a wide spectrum of industrial scenario India ranging from basic and capital goods industries to consumer goods industries which include electronic items, drugs and pharmaceuticals, surgical instruments and also textiles. One may also note that today public sector investments have been extended to services enterprises also, viz., transport and communication, airlines and shipping and also trading enterprises. This last category of enterprises provides marketing network in the names of such organisation as State Trading Corporation, Minerals and Metals Trading Corporation and also other trading corporations particularly attached to three important agro-based industries of the country, viz., tea, jute and cotton. Another area of investment directly made by the central government is in technological

and consultancy support to the development effort including major construction activities.

In table 2.1, we have seen that over the years absolute investment for public enterprises has been increasing, thus reflecting political will of the government and its seriousness in controlling the commanding heights of the economy. Public sector investment has been particularly important from the point of view of industrial development, mainly, because it has its greatest impact on the overall economic development of the economy. It should be noted, however, in this context, that with the slackening of government investment in public enterprises from the mid-sixties onwards, the growth of basic and capital goods industries began to retard leading to what has been termed as 'structural retrogression' in the economy.[20] At the same time when the Fourth Plan was formulated, the economy was showing symptoms of industrial recession which, as stated before, were mainly due to the slowing down of public sector investment particularly in the capital goods and engineering industries. The Planning Commission felt that efforts should be made to reverse this trend of recession and to accelerate future economic growth. Thus during the Fourth and Fifth Plans, due emphasis was given for the expansion and diversification of basic and capital goods industries. Consequently, a bulk of central government's allocation of investment went to basic and capital goods industries.[21]

During the Fifth Plan period, investment in central government enterprises registered almost a two-fold increase while it was Rs. 6,237 crores in 1973-74, it jumped up to Rs. 12,851 crores in 1976-77 and by the end of 1980-81 the

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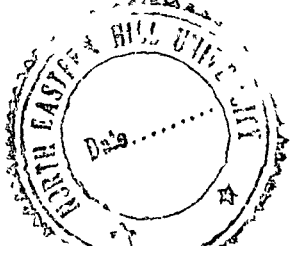

Table 2.2

Share of Basic and Capital Goods Enterprises Investments in Central Government Investment, 1973-74, 1976-77, 1980-81 and 1987-88

(Rs. in crores)

Basic and Capital Enterprises	1973-74	1976-77	1980-81	1987-88
Steel	2028.00(32.53)	3056.62(23.78)	4132.42(19.56)	7099.00(10.00)
Minerals and Metals	872.59(13.99)	943.23(7.34)	1414.97(6.70)	7010.00(9.80)
Coal	-	1435.86(11.17)	2219.09(10.50)	7253.00(10.20)
Petroleum	360.02(5.77)	816.84(6.36)	1506.22(7.13)	6637.00(9.30)
Chemical and Fertilizers and Pharmaceuticals	818.11(13.12)	2528.85(19.68)	3337.68(15.80)	6498.00(9.10)
Heavy Engineering	6478.81(10.82)	826.65(6.43)	1095.68(5.19)	3194.00(4.50)
Medium and Light Engineering	146.29(2.35)	242.79(1.89)	356.05(1.68)	-
Transport Equipments	227.41(3.65)	367.55(2.86)	700.12(3.31)	2318.00(3.20)
Total	5128.20(82.22)	10218.41(79.51)	14762.23(69.88)	40009.00(56.11)
Other Industries	1108.95(17.78)	2633.02(20.49)	6364.12(30.12)	31290.00(43.89)
Total Investment in all Enterprises	6237.15(100)	12851.43(100)	21126.35(100)	71299.00(100)

Note : Figures in brackets are percentages of total.

Source : i) Government of India, Annual Report of the Working of Industrial and Commercial Undertakings, 1973-74, 1976-77, 1980-81 and 1987-88.

ii) Government of India, Public Enterprises Survey, 1987-88.

increase in investment from 1973-74 was nearly three times at Rs. 21,126 crores. In 1987-88, it was Rs. 71,299 crores. However, when one analyses this investment structure in percentage terms, one is likely to find that the increase was mainly in absolute terms while in relative terms, the proportion of investment in basic and key industries declined while that of 'other' or 'non-basic' industries increased. This is seen in table 2.2, in page 16.

The table 2.2 shows that the relative share of most of the basic and capital goods enterprises with respect to the total investment declined. This seems to be due to the reasons that the task of basic and key enterprises was to facilitate the growth of other industries by creating scope for promoting production of the small scale enterprises.[22]

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Chapter - 3

CONTRIBUTION OF PUBLIC SECTOR ENTERPRISES IN INDIA AND IN MEGHALAYA

Contribution of Public Enterprises in India

In the foregoing chapter, we have outlined the important objectives, whereby, public enterprises are expected to meet in order to bring about a structural change in the economy. So far as contribution of public enterprises towards the national economic development is concerned, public enterprises have been the largest supplier of goods and services in the country especially the essential, basic and strategic goods. The direct financial and technical assistance rendered by public sector agencies (through the nationalised bank and other financial and technical institutions) have helped in the development of industries in the private sector inclusive of ancillary industries in the small scale sector.[1] Besides, deliberate policy of establishing key and basic enterprises in the backward regions has helped in reducing regional imbalances. In particular, it would be appropriate to determine the contribution of public enterprises by taking into account their share in the national income-generation and employment.

Firstly, the share of public enterprises in the net domestic product (NDP) has increased significantly since 1950-51. This is shown in table 3.1 below:

Table 3.1

Percentage Share of Public and Private Sectors in NDP (at current prices)

Sector	1950-51	1960-61	1970-71	1984-85
a) Public administration and defence	4.5	4.0	7.0	9.0
b) Public enterprises	3.0	6.6	7.5	15.5
c) Total Public Sector	7.5	10.6	14.5	24.5
d) Total Private Sector	92.5	89.4	85.5	75.5

Source : (i) Central Statistical Organisation, National Accounts Statistics, 1970-71 to 1984-85 and January 1987 Issue; (ii) Centre for monitoring Indian Economy, Basic Statistics Relating to the Indian Economy, Vol.I, August 1986.

Secondly, there has been a remarkable contribution of public enterprises, by way of earning foreign exchange, through actual exports by manufacturing and trading concerns and also through services rendered by Air Corporations and Shipping Companies. Foreign exchange earnings through actual exports by public enterprises have been increasing from Rs.35 crores in 1965-66 to Rs.72 crores in 1968-69. It jumped to Rs.96 crores in 1970-71 and to Rs.2,655 crores in 1983-84. In 1987-88 the export earnings of all public sector came down to Rs.4,252 crores. It can also be mentioned here that due to import-substitution of public enterprises, India was able to save Rs.720 crores worth of foreign exchange in 1979.

Thirdly, public enterprises have also helped in mobilising resources through internal resources generation, dividends, income tax, custom and excise duties. Internal resources consist of depreciation and retained profits. The gross internal resources generation was Rs.287 crores during the Third Plan. This rose to Rs.1,260 crores during the Fourth Plan which again increased to Rs.3,439 crores in the Fifth Plan. During the Sixth Plan internal resources generation was of the order of Rs.11,721 crores and during the Seventh Plan Rs.31,775 crores of internal resources were generated. Dividends which were Rs.50 crores in 1976-77 rose Rs.58 crores in 1977-78. During the period 1980-81 to 1984-85, the total dividend paid by public enterprises was Rs.617 crores and in the year 1987-88 alone the amount of dividend paid was Rs.314 crores. By way of taxes and excise duty, public enterprises contribution was Rs.1,326 crores and Rs.1,464 crores in 1976-77 and 1977-78 respectively. The contribution to the state exchequer through

dividends, corporation tax, excise and custom duties during the Fourth Plan amounted to Rs.3,120 crores and increased to Rs.7,985 crores in the Fifth Plan. During the Sixth Plan it was Rs.27,570 crores and only for the year 1987-88, it was Rs.15,131 crores.[2]

Finally, employment in the public enterprises saw an increasing trend with subsequent Five Year Plans. It is important to assert here that public sector employment is divided into two categories - government administration, defence and health, education and research services on the one hand and public enterprises on the other hand. The total number of persons employed in both these categories was 107 lakhs in 1971. As on March 1986 the number grew to about 177 lakhs. This accounts for only 6.6 percent of the total labour force in the country[3]. But when we consider from the point of view of the organised sector (since public enterprises are mostly confined to the organised sector) we are likely to find that public enterprises account for 71 percent out of the total labour force of the country. Employment in public enterprises (non departmental) has been continuously increasing as seen from the number of employees which was 1.85 lakhs in 1960-61 rose to 6.60 lakhs in 1970-71, again to 18.39 lakhs in 1980-81 and to 20.09 lakhs in 1982-83. During these some years, the amount of salaries and wages was of the order of Rs.41 crores, Rs.361 crores, Rs.2619 crores and Rs.3618 crores respectively.[4] Public enterprises as seen from above, generated considerable employment opportunities during the sixties and the seventies. Besides, public enterprises have till 1988 spent Rs.2,275 crores on townships for workers' housing. This has benefited 22 lakhs workers or 32 percent of the total working force in public enterprises.

Public enterprises have assumed a major role in bringing about immense change in the development and growth of Indian economy. One cannot overlook the fact that whatever India has achieved economically till today, is mainly due to the active initiative of the goverment through its p;ublic enterprises. However, it can be mentioned that so far, our discussion was mainly confined to the public enterprises run by the central government. It may be argued that the central government can act only as a partial corollary of socio-economic policy based on socialistic orientation. In fact, in matters directly connected with the reduction of regional and sectoral imbalances as well as with inequalities and concentration of economic power, state level public sector enterprises (SLPSE) have been set up.[5] The number of SLPSE as on 31st March, 1987 was 919 inclusive of 76 corporations with a total investment of Rs.44,738 crores.[6] Excluding 76 corporations, the remaining 843 SLPSE with a total investment of Rs.13,746 crores, embrace activities ranging from industry, agriculture, public distribution, financing etc..[7] The SLPSE may or may not aim to attain the commanding heights of the economy, but it is imperative that they strive to promote regional growth. This will involve the state governments through their undertakings to develop initial infrastructure such as efficient and adequate transport facilities, generation of electricity and exploitation of local resources as well as enterpreneurship talents.

There is no denying the fact that the above mentioned activities are some of the major prerequisites for the successful upliftment of the economy. It is, therefore, natural that in backward regions in particular, some of the activities (e.g., State Electricity Boards, State Transport Undertakings, etc.) are taken

up by the SLPSE. However, whether a public enterprise is run by the central or state government, it is obvious that subject to fulfilment of certain socio-economic objectives, it has to be a business proposition as well. In concrete terms, it means that sooner than later, it has to sustain itself by its own resources. That is why it is necessary to plough back return on the capital invested for the working of an enterprise, so as to provide creditability to its image and at the same time to be accountable to the public at large.

Public Enterprises in Meghalaya

Coming now to the State of Meghalaya, we cannot fight shy of the fact that the industrial scenario is not very encouraging as shown in table 3.2 in page 24. The state is endowed with rich resources which include minerals, forests, horticulture, power and a conducive climate.[8] But inspite of rich resources the state is beset with constraints, viz., lack of infrastructural facilities considered indispensable for industrial development. Also, the people in general lack entrepreneurial talents or in any case have not become industrially motivated. The failure of the government to take intitiative in removing economic stagnation in the state, even after a period of nearly two decades, has been responsible for slow progress of industrial development. In order to create an industrical culture[9] within the State, the Meghalaya Industrial Development Corporation Limited (MIDC) was incorporated in 1972 under the Companies Act, 1956. This was meant to bring all the state level industrial concerns under one umbrella of MIDC for development of industries and for monitoring their progress. The MIDC is a Government of Meghalaya undertaking whose share by way of paid up capital is owned by the government. During the period from 1972-73 to 1979-80

Table 3.2

Investment in State Public Sector Enterprises in Meghalaya as on 31st March, 1987

(Rs. in lakhs)

Sector	Number of enterprises	Investment			Cumulative Profits	Cumulative Losses
		Capital	Loans	Total		
Industry	1. MIDC Ltd.	839.17	438.15	1277.32		
	2. MW Ltd.	10.00	18.46	28.46		
	3. MBC Ltd.	10.00	20.73	30.73		
	Total	859.17	477.34	1336.51	-	28.40
Handloom and Handicraft	MHHDC Ltd.	10.00	-	10.00	-	2.21
Forest	FDCM Ltd.	107.19	-	107.19	-	24.39
Mining	MMDC Ltd.	22.00	-	22.00	-	-
Construction	MGCC Ltd.	28.14	-	28.14	3.85	-
Cement	MCC Ltd.	941.10	704.28	1645.38	-	540.03
Tourism	MTDC Ltd.	64.10	30.30	94.40	-	0.33
	Total	2031.70	1211.92	3243.62	3.85	595.36

Source : Government of India, State Government Public Enterprise, Concept, Performance and Accountability, New Delhi, 1989, Annexure 1.21, p.162.

capital employed was to the tune of Rs.1048 lakhs. In 1978, MIDC was authorised by the government of India to borrow funds from all India Financial Institutions. Following this facility, the corporation started disbursing financial assistance to industrial concerns within the state. The Corporation had till 1989 disbursed a loan of Rs. 793 lakhs to small road transport operators and Rs.553 lakhs to small scale industries out of the total amount of Rs.1156 lakhs received from Industrial Development Bank of India (IDBI).

The corporation has three major subsidiaries, viz., the Meghalaya Bamboo Chips Limited (MBCL), the Meghalaya Electronics Development Corporation Limited (MEDCL) and the Meghalaya Watches Limited (MWL). In these three enterprises, the amount of shares owned by MIDC as on 31st March, 1989, was Rs.10 lakhs in MBCL, Rs.10 lakhs in MWL and Rs.24 lakhs in MEDCL. It must be noted here that the fund for these shares was contributed fully by the government, via., MIDC. The Corporation also promoted joint sectors through equity-share capital participation. These include Komorrah Limestone Mining Company Limited (KLMCL), Meghalaya Essential Oils and Chemical Limited (MEOCL) and Meghalaya Plywoods Limited (MPL). In all these three enterprises, the MIDC owned most than 51 percent of the total equity share capital and the Corporation owns Rs.5.5 lakhs out of total equity share of Rs.10 lakhs, in MEOCL, it owns Rs.3 lakhs out of Rs.5 lakhs and in MPL it owns Rs.10 lakhs out of Rs.17 lakhs.[10] The setting up of these proejcts was designed mainly to promote local talents, employment and training facilities. But unfortunately, except KLMCL, none of the above projects has taken off. Besides promoting industrial concerns, the corporation also took upon itself the responsibility of developing manpower

resources of the state for the benefit of the local youths by sponsoring students intending to study technical and managerial course outside the state since the state is yet to have an Engineering College or an instutition for managerial training.

In addition to the above mentioned government enterprises, we find other public enterprises in Meghalaya such the Meghalaya State Electricity Board (MSEB), the Meghalaya Tourism Development Corporation (MTDC), the Meghalaya Transport Corporation (MTC), the Mawmluh Cherra Cements Limited (MCCL), etc..[11] The establishment of all these enterprises was made for one basic purpose and that is, to bring about an industrial culture in the state of Meghalaya.

Profile on the Performance of Major Public Sector Enterprises in Meghalaya

Since this study proposes to delve into the performance of the MCCL, in this chapter we will, therefore, present the broad performances of only two major state public enterprises - the MSEB and the MTC. That of the MCCL will be presented in subsequent chapters.

MSEB

The history of the MSEB may be traced back from the year 1922 when electricity was brought to Shillong by a private company under the name 'Shillong Hydro Electric Company' (SHEC). This company, with an installed capacity of 1.5 MW, generated transmitted and distributed electric power to the town of Shillong. It was not until 21st January, 1975, that MSEB came into its existence. It took over the responsibility of generation, transmission and distribution of electric

power in Meghalaya. In 1977 the SHEC was also taken over by the MSEB.

Works for major electric power development by the state electricity board began in the year 1952 with the Umtru Hydro Electric Project. This project with an installed capacity of 8.4 MW was commissioned in 1957. The vast power potentiality attracted the attention of the central government, as a result of which the government of India established the North-Eastern Electricity Board to augment further power generation in the state and for the region as a whole.[12] At present along with the Umtru project, we have also the Umiam Stage I project, the Umiam Stage II project, the Umiam Stage III project and the Umiam Stage IV project established jointly by the Central and the state goverments.

Besides generating power, the MSEB is also entrusted with the transmission and distribution of electricity in rural areas under the rural electrification schemes In table 3.3, the outlay, physical target and target achieved for rural electrification will be shown.

Table 3.3

Extent of Rural Electrification in Meghalaya (1980-1989)

Year	Outlay (Rs. in lakhs)	No. of Villages	
		Proposal Target	Target Achieved
1980-81	165	235	154
1981-82	222	200	168
1982-83	160	188	129
1983-84	295	195	141
1984-85	253	156	124
1986-87	446	212	59
1987-88	487	224	76
1988-89	600	200	-

Source : MSEB at a Glance, Engineering Department, MSEB, Shillong, 1987-88.

With regard to financial performance, one may get an idea from the following table which shows the budget estimates of revenue, income and expenditure for the period covering the last five years (1984-85 to 1988-89).

Table 3.4

Estimates of Revenue, Income and Expenditure of MSEB from 1984-85 to 1987-88
(Rs. in lakhs)

Particulars	1984-85	1985-86	1986-87	1987-88	1988-89
Revenue Receipts	1477	1270	1503	1480	2215
Revenue Expenditure	1180	1361	1508	1534	3092
Net Surplus (+) and Net Deficit (-)	(-)128	(-)605	(-)1613	(-)1385	(-)172

Source : Annual Financial Statements, MSEB, 1984-85 to 1988-89.

A look at table 3.3 and 3.4 shows that MSEB is still far away from achieving its targets as it does not appear to be running smoothly. As far as financial performance is concerned there has been an unsteady cash flow and, therefore, this enterprise has to face constraints all through its operation. Unrevised tariffs, non-payment or inordinate delay in the payment of tariffs from bulk consumers like Assam government, Tura and Shillong municipalities, MCCL, etc., are some of the reasons which result in revenue deficit of the enterprise.[13] This situation left the enterprise with no scope for further improvement of physical performance as well as economic development of the state.

MTC

The MTC was constituted on 1st October, 1976 in accordance with the Road

Transport Corporation Act, 1950. During its initial period of operation, the enterprise operated 23 routes, covering a route length of 2431 kms and with a staff strength of 835. MTC has at present (1989-90) a fleet of 132 buses operating on 37 routes, covering a route length of 4550 kms and with a total employment strength of 981.

The MTC was established with the objectives of providing efficient, economic and coordinated public transport on business principles. The belief that mobility of people has an important role to play in order to bring about economic development and growth, motivated the authority to strive hard to link interior and remote areas with urban areas. To achieve these basic objectives, the enterprise devised certain plans and schemes so that economic benefit could be genuinely realised by the general public. To improve the infrastructure in its operation, multi-storied station buildings in important route stations, viz., Shillong and Tura have been constructed. Next, the route services like Shillong-Karimganj, Tura-Mahendraganj, Tura-Maheskhola, Shillong-Ranikor, Shillong-Mawsynram and Shillong-Dimapur have also been taken up. Besides these, other new routes proposed to be opened up in the near future are Shillong-Jorhat, Shillong-Dharmanagar, Shillong-Siliguri and Shillong-Aizawl routes. The MTC has also introduced school bus services to important towns like Shillong and Jowai besides operating city-bus service on some routes in these towns.

Regarding financial peformance, it has been found that at the time of its inception, that is, 1st October, 1976, the total value of assets of the MTC was assessed at Rs.85 lakhs. The enterprise inherited from Assam State Transport Corporation liabilities of Rs.13.13 lakhs inclusive of unpaid bills of suppliers

amounting Rs.10.44 lakhs. During the period 1976 to 1980, the State Government contributed capital worth of Rs.102 lakhs to the MTC while another Rs.22 lakhs was credited by the IDBI in 1978-79. The broad financial position of the enterprise during the period 1985 to 1989 is summarised in table 3.5 below:

Table 3.5

Estimates of Revenue, Income and Expenditure of MTC from 1985-86 to 1988-89
(Rs. in lakhs)

Particulars	1985-86	1986-87	1987-88	1988-89
Revenue Receipts	212	235	189	332
Revenue Expenditure	254	300	351	351
Net Surplus (+) and Net Deficit (-)	(-)155	(-)215	(-)262	(-)256

Source : Annual Report, MTC, 1985-86 to 1988-89.

It is apparent from table 3.5 that this enterprise also, is beset with financial constraints which impeded its smooth functioning and as a result of which the enterprise has to continue to depend on the contributions from the government's budgetary sources.

Evaluation

A brief review of the two public enterprises of the state thus reveals poor economic performances, and, therefore, at least on this account, gives us no hope and encouragement for ushering in a new economic order and industrial culture in the state. Instead, the results of the performance of these enterprises have placed in the minds of the tax-payers a sort of apprehension and conster-

nation which can only be expunged by the government's new attitude, viz., motivation for industrialisation through efficient production and management. This is expected to help creation of a cooperati· · response from the general public, who in turn, will be encouraged to take up industrial entrepreneurship which will fructify into general economic welfare for the people of the state.

Notes and References

1 Government of India, Public Enterprises Survey (1985-86).

2 (i) India, A Reference Annual (1981).

(ii) Government of India, Economic Survey (1985-86 to 1988-89).

(iii) Government of India, Public Enterprises Survey (Vol.I, 1983-84 and 1987-88).

3 Centre for monitoring Indian Economy, Basic Statistics Relating to the Indian Economy, (Vol.I, August, 1986).

4 Tata Services Limited, Statistical Outline of India (Bombay House, 1984), p.82.

5 Government of India, Comptroller and Auditor General of India, State Government Public Enterprises - Concept, Performance and Accountability (New Delhi, 1989).

6 Ibid.

7 Ibid.

8 Government of Meghalaya, Industrial Policy (Industnes Department, 3rd May, 1988).

9 Ibid.

10 Annual Reports, MIDC, 1974-75 to 1988-89.

11 (i) Table 2.2.

(ii) Government of Meghalaya, Techno-Economic Survey (1988).

12 It may be relevant to mention here that as a result of reorganisation of states in the North-East India, each state by itself was not considered viable enough to exploit, generate and consume hydroelectricity by its own manpower and financial resources. In fact, this was one important rationale for which North-Eastern Power Corporation was set up by the North-Eastern Council to pull the resources of the region together for building up such projects in power, communication, etc.

13 The amount of arrear till 1985-86 payable to consumers like Assam Government, Shillong and Tura Municipalities and MIDC stood at Rs.1100 lakhs.

Chapter - 4

CEMENT INDUSTRY IN INDIA - A PROFILE

Introduction

Any development activity necessitates construction of durable assets in the form of buildings, bridges, dams, roads, etc.. And Cement happens to be the crucial factor necessary for construction activities and, therefore, of developmental activities in geneal. It is in fact, a prerequisite for the orderly growth of other critical and basic industries like steel, power, coal and transport, for, construction of a shed or a road or a bridge is necessary for any industrial development. Besides, it is also a basic commodity for housing purposes and with recent thrust by the government on housing development (along with increasing necessity for development of road communication), the industry has made rapid strides to meet the boosting demand for cement in the near future.[1]

A Historical Perspective

The cement industry in India is relatively a new industry. It began its career in the year 1914 at Porbandar, Gujarat under Indian Cement Company Limited with a capacity of 1,000 tonnes per annum. From a production of only 945 tonnes in 1914, the industry now (1986-87) produces over 36 million tonnes. At present there are 49 cement companies both in the public and private sectors, with 94 factories and a total investment of Rs.6,000 crores. With the outbreak of World War II, there was a marked increase in the demand for cement. This initially gave an impetus to the growth of cement industry in India. It was during the period 1939-45 that cement was first brought under price and distribution controls of the government. In the year 1938 the first public sector cement unit was established at Bhadravati under Mysore Iron and Steel Works. But it was only in 1947 that the Associated Cement Companies Limited (ACCL) founded in the

year 1936 started manufacturing the first entirely indigeneous cement plant at Chaibasa. Since then India has not looked back and even though its progress has been accompanied by stresses and strains, India exhibits large potential for the development of cement industry.

Progress During Plans

For nearly four decades after the commencement of the First Plan, India has been facing cement shortage. The broad performance of the cement industry can be depicted in table 4.1 as shown in page 35.

Analysing the capacity utilisation and production of the cement in India, we find that during the First, the Fifth and the Sixth Plans the performance both in capacity creation as well as in actual production was on the higher side. In the First Plan, against the targetted capacity of 5.3 million tonnes, the total achievement was 5.0 million tonnes. Correspondingly, production target during this period was 4.8 million tonnes and the actual production was of the order of 4.6 million tonnes. During the Second Plan the capacity of the industry was raised by over three times from 5.0 million tonnes to 16.0 million tonnes. This was done in tune with the requirement of the developmental needs of the second quinquennium. However, the targetted capacity could not be adequately utilised and production was restricted to only 8.0 million tonnes, barely 50 percent of the targeted capacity. In the Third Plan the targetted capacity was lowered down to 15.0 million tonnes but this was compensated by an achievement in creating capacity equal to 12.0 million tonnes. Simultaneously, production achievement also registered a growth from 8.0 million tonnes of the previous plan to

Table 4.1

Targets and Achievements of Cement Industry in India, 1951-56 to 1985-90

(million tonnes)

Period	Capacity		Targetted Achievement in percent	Production		Targetted Achievement in percentage
	Target	Achievement		Target	Achievement	
First Plan (1951-56)	5.3	5.0	94.3	4.8	4.6	95.8
Second Plan (1956-61)	16.0	9.3	58.1	13.0	8.0	61.5
Third Plan (1961-66)	15.0	12.0	80.0	13.0	11.0	84.6
Fourth Plan (1969-74)	-	19.8	-	18.0	14.7	81.7
Fifth Plan (1974-79)	23.5	22.6	96.2	20.8	19.4	93.3
Sixth Plan (1980-85)	43.0	41.2	95.8	32.5	30.2	92.9
Seventh Plan (1985-90)	60.0	-	-	49.0	-	-

Source : Data on Cement Industry in India , ACCL, Bombay, 1987.

11.0 million tonnes during the quinquennium against the targetted production of 13.0 million tonnes. During the Fifth Plan, a relatively better performance was noticed when against a targetted capacity of 23.5 million tonnes, 22.6 million tonnes capacity was created and likewise in production, against the targetted production of 20.8 million tonnes the actual production was 19.4 million tonnes. While during the previous Fourth Plan the actual production was only 14.7 million tonnes against a target of 18.0 million tonnes. In the Sixth Plan, target capacity was fixed at 43.0 million tonnes and production target at 32.5 million tonnes. Against these, capacity achievement was 41.2 million tonnes and actual production was 30.2 million tonnes. The capacity by the end of the Seventh Plan was expected to reach 60.0 million tonnes and with substantial step up in cement production, the total production was expected to reach the target of 49 million tonnes.

Demand for and Availability of Cement

In India the demand for cement has been increasing. This situation offers a vast scope for its future development both in terms of production and capacity utilisation. The extent of the demand for and availability of cement can be understood from Table 4.2, on page 37.

From the data presented in table 4.2 it is clear that from 1978-79 to 1985-86, there was constant shortage of cement and inspite of imports during this period, there was still shortfall to meet the increasing demand for cement. Even in the year 1986-87 when import was altogether stopped, the country had to bear

Table 4.2

Demand for and Availability of Cement in India, 1978-79 to 1989-90

(Million tonnes)

Year	Total Demand	Domestic Production	Imports	Total Availability	Shortfall in Percentage
1978-79	24.0	19.4	1.7	21.1	12
1979-80	25.9	17.7	1.5	19.2	26
1980-81	28.0	18.7	2.0	20.7	26
1981-82	30.2	21.1	1.6	22.7	25
1982-83	32.6	23.3	1.5	24.8	24
1983-84	35.3	27.0	2.4	29.4	17
1984-85	37.0	30.2	0.4	30.6	17
1985-86	39.4	33.1	0.5	33.6	15
1986-87	41.7	36.4	Nil	36.4	13
1989-90	49.0	50.0	Nil	50.0	Nil

Source : Data on Cement Industry in India, ACC Limited, Bombay, 1987.

a shortfall of 13 percent of total requirement. Another interesting finding here is that while total demand for cement went up from 24 million tonnes in 1978-79 to 49 million tonnes in 1989-90, the production, on the other hand, more than doubled from 19.4 million tonnes to 50.0 million tonnes during this same period. There was, therefore, a sharper rise in production growth as compared with demand. In fact, production during 1989-90 even outstripped the demand by a million tonne. Along with this, capacity has also been rising manifold (see table 4.1). This is a welcome development which promises a sizeable surplus output in the future. To endeavour to bring about a total disappearance of cement shortage in the context of the expected rising future requirements, it is important to augment the present installed capacity of 57.46 million tonnes (as on 31st March, 1988) substantially to meet the present licensed capacity of 95 million tonnes.[2]

Government Initiative in Price and Distribution Policy Formulation

The government in its capacity had taken upon itself the task of ensuring adequate supply of cement and to improve the conditions of the cement industry in various ways. In 1953, the government asked the Tariff Commission for the first time to study the cost structure of the cement industry. This had resulted in the government's order giving monopoly to the State Trading Corporation, a government concern, with respect to the distribution of domestic and imported cement. The Second Tariff Commission in 1958 fixed ex-works price of neat cement at prices ranging from Rs.54.50 to Rs.80.50 per tonne. In the year 1965 the Cement Corporation of India (CCI) was established in the public sector.

In 1966-67 the government relieved itself of the task to control cement industry. In 1969 the government fixed a uniform retention price of Rs.100 per tonne by replacing a three-tier price system effected from 1961. The retention price was subsequently increased from time to time in order to compensate for the increase in input costs. But then again, in 1979 a three tier price system was reintroduced followed again by a uniform pricing system for levy cement after partial decontrol in 1982.

During the early seventies, the industry witnessed a terrible setback due to inflation which resulted in escalating costs and eroding profits. This in turn, brought about an acute shortage of cement and production levels were quite inadequate to meet the rapidly growing demand.[3] To counter this situation, the government in 1977 announced a 12 percent post-tax return on net worth fixed at Rs.230 per tonne of capacity. This was supposed to be an improvement over the earlier formula of 14 percent return on capital employed. This announcement immediately gave a fillip and an incentive for new ventures to cement industry. Next, a partial decontrol of cement industry was announced by the government on 2nd February, 1982. Following this, the government introduced a concept of levy and non-levy cement in its price and distribution policy. The implication of this concept was that out of the total production of cement, a portion was treated as a levy cement which the government bought at fixed price while the balance was treated as non-levy cement to be sold in the market at rulling price. (In 1989 the percentage of levy cement was 20 percent of the total cement available).

When the government declared complete decontrol of cement industry on 1st March, 1989, the concept of levy and non-levy cement became null and void. What resulted was that all produce was sold freely in the market leading to cut-throat competition. More importantly, with the demand for cement going up many firms are cashing in for hiking prices to ensure better margins. Moreover, it has been noticed that mini cements plants with capacity of 2.88 million tonnes each per annum and having uneconomically wet process of production had to bear the brunt, when, due to total decontrol all concessions relating to taxation, excise duty and provision of wage boards have been taken away leaving them in a big ocean of competition with big cement concerns mostly having advanced methods of technological production. In this connection, it may be pointed out that about 87 percent of total production (with about 82 percent of total capacity) was produced in the private sector as on 1986-87. Of this private sector production again the share of ACCL both in capacity utilisation and in production is about one fourth. This is depicted in table 4.3 below:

Table 4.3

Percentage Share of Capacity and Production of Cement by Sectors in India, 1986-87 (Million tonnes)

	Capacity	Production
Total	43.6	34.7
Share of Public Sector	7.9(18.1)	4.6(13.3)
Share of Private Sector	35.7(81.9)	30.1(86.7)
Share of ACCL in Private Sector	8.8(24.6)	8.1(26.9)

Note : Figures in parntheses indicate the percentage share.

Source : Data on Cement Industry in India, ACCL, Bombay, 1987.

The table 4.3 shows that the remaining three fourth of private sector production thus came from more than 50 firms in the private sector.[4]

The only brighter side of the decontrol was the capacity creation which increased from 34.4 million tonnes in 1982-83 to 51.7 million tonnes in 1986-97. Correspondingly, production jumped from 23.3 million tonnes to 36.4 million tonnes during the same period. This is shown in table 4.4 below:

Table 4.4

Trends in Capacity, Production and Capacity Utilisation, of Cement Industry in India, 1950-51 to 1986-87 (Million tonnes)

Year	Installed Capacity	Production	Percentage of Capacity Utilisation
1950-51	3.3	2.2	66.7
1960-61	5.0	4.6	92.0
1970-71	17.8	14.4	81.8
1975-76	21.2	17.3	81.6
1977-78	21.9	19.4	88.6
1981-82	29.3	21.0	72.0
1982-83	34.4	23.3	67.7
1984-85	41.2	30.2	73.3
1986-87	51.7	36.4	70.6

Source : Data on Cement Industry in India, ACCL, Bombay, 1987.

But it may be stated that it is still too early to say whether such a development would indicate that the industry is in for good times. This is because the industry is likely to confront problems like newer and higher capacity utilisation, overcoming factors affecting cement production (see Appendix table No.A-1), optimisation of production and more importantly, upgradation and adoption of modern technology. Besides, the industry has to tread carefully to avoid cutthroat competition and unremunerative prices which may arise as a result of the increasing capital and manufacturing costs. The industry has also to take precautions to avoid overproduction which if not checked may face the industry with a spectre of glut in the future.

Notes and References

1 i) Recommendations of the All India Seminar on Modernisation of Roads and Pavements Through Cement Concrete, Hyderabad, 9th and 10th February, 1990.

ii) Economic Times, March 29, 1990.

2 Report on Marketing for Reactivation of MCCL (ACCL, Bombay, 31st January, 1989.

3 i) A Note Released by Cement Manufacturers Association (CMA), (Bombay, 2nd January, 1990).

ii) Singhania, Y.P., At Technical Session-II, Construction Aspects, (CMA), (New Delhi, 22nd February, 1990).

4 Data on Cement Industry in India (ACCL, Bombay, 1987), pp.34-40.

Chapter - 5

PERFORMANCE OF MAWMLUH-CHERRA CEMENTS LIMITED

The Beginning

The history of MCCL may be traced back from the year 1955 when it was incorporated as a private enterprise on the 20th May under the Indian Companies Act of 1913 in the name 'Assam Cements Limited'. This enterprise was the first cement plant that ever came up in the whole North-Eastern Region (NER) of India. The location for the factory was chosen at Mawmluh, close to Cherrapunjee, situated at a distance of about 56 kms from Shillong. The choice for Mawmluh was made on the basis of easy accessibility of raw materials for the manufacture of cement such as limestone, clay and coal. All these materials could be available from mineral-rich areas in and around Cherrapunjee.

The first Board of Directors of the enterprise included Shri Haridas Mundhra, Shri Mungtoolal Tapuria, Shri Bansidhar Daga and Shri D. Agarwala. But ironically, participation of such industrialists notwithstanding, the promoters failed to make any headway in starting up production due to their inability to raise the needed fund. But having realised the potentiality of the enterprise, the government decided at this juncture to take it over so as to avoid further delay in cement production. Simultaneously, being uable to raise the required funds, the Board of Directors requested the government to remove the handicaps so that the plant may be commissioned early. This prompted the government for an immediate take-over of the enterprise. Accordingly, on the 1st January, 1964, the enterprise was converted into a public enterprise with very small and almost token percentage of share given to private sector. Thus from 1st January, 1964, Assam Cements Limited became a Government of Assam Undertaking. Immediately after the taking over of the enterprise, the government began the construction work which was completed in 1966, and the plant was commissioned

in the month of November of the same year. At the time of its commissioning, the plant was having an installed capacity of 85,500 tonnes of cement per annum. With the reorganisation of the composite state of Assam resulting in the creation of Meghalaya, the control and management of the enterprise formally passed over to the latter. The Assam Cements Limited (A Government of Assam Undertaking) was rechristened as Mawmluh-Cherra Cements Cements Limited (MCCL) on 7th May, 1974 and became a Government of Meghalaya Undertaking.

The objectives for which MCCL was established could be seen from the Memorandum of Association of the enterprise itself. To name some of the most important objectives, one may note the following.

In the first place, MCCL was established to exploit all the raw materials the enterprise may acquire and to utilise them for the production of cement. It is relevant to mention here that cement has been considered as the key factor not only for industrial production but also for industrial production but also for domestic purposes like housing-construction development, etc. (see chapter 4). This object thus involved combination and utilisation of resources based on planning, so as to transform the resources into desirable goods and services ready to be placed in the hands of the consumers. The motivating macroenvironment of forces responsible for the cement production at Mawmluh can be broadly classified into two categories as follows :

1. Economic Forces

a) The major goal set for the setting up of the cement factory at Mawmluh was to facilitate job opportunities to the people who were hard hit by the parti-

tion of India resulting in the closure of trading relations with East Bengal (present Bangladesh).

b) The second goal involved regular flow of cement production to market necessary for equalising supply with demand.

c) To render profitable the business of the enterprise.

2. Social Forces

Among the social forces, it was envisaged that :

a) The enterprise should maintain good relations with the community by involving itself in community activities relating to education, scientific inventions and recreation. To finance these activities a part of the profit should be set aside by the enterprise.

b) It was also stipulated that the enterprise would take appropriate steps for the improvement and development of market places, sanitation schemes, conservation of national resources and other similar public utility services in the vicinity of the factory.

Financial Performance

The mission of any business enterprise is generally to produce and distribute certain products and services with one principal objective, and that is to maximise profits. A business enterprise embraces profit seeking activities that provide goods and services necessary to an economic system.[1] Judged from this standpoint, it becomes clear that the success or failure of any enterprise, be it public

or private depends largely on the ability of an enterprise to reap a profit or a positive return to the capital invested. Information necessary to ascertain whether an enterprise succeeds or fails to reap a return or a surplus can be obtained from the financial performance of an enterprise itself. Financial performance reveals the true position of the enterprise regarding its liquidity solvency, bankruptcy, profit and loss.

With regard to the MCCL, we would make an attempt to study its financial performance for the period of twenty years, from 1966 to 1986.

The MCCL, a member enterprise of the cement industry in India established in the public sector is till today the only cement-producing enterprise in Meghalaya. Therefore, it has acquired monoply in cement production in this state. In accordance with the objectives for which MCCL as a company was established, it was expected that it would make a significant contribution towards the general improvement in the economic conditions of the people and to the upliftment of industrial culture within the state. Besides, as already stated, it was also stipulated that the MCCL must also strive to fulfil its social responsibility by bringing about a change in the socio-economic life of the society.[2] Such a change could be brought about through provision of basic infrastructure like transport, health, education, recreation and entrepreneaurial facilities. Some of these are, in a larger context, to be brought by the state, yet a public enterprise may contribute resources to the state exchequer to enable the state to take over some of these activities. So unless public enterprise succeeds to generate surplus, it becomes very difficult on the part of the state to meet these objectives in order to bring about an accelrated growth rate, economic efficiency

of resource utilisation and above all to ensure economic security and justice for all the citizens.

Ever since the MCCL started its production in 1966 (and till 1986), the image of this enterprise has not been very good. This enterprise has been incurring losses or negative return over the capital employed. To have a clearer picture of this phenomenon, it is relevant to analyse the capital structure of the enterprise. During the year 1966-67, the investment made in the enterprise was Rs.91 lakhs. Of this amount, the government contributed Rs.70 lakhs or 77 percent of the total paid up capital. In the next year, that is, 1967-68, the government participation in the share capital of the enterprise increased to 96 percent when it contributed Rs.87 lakhs to the total paid up capital of Rs.91 lakhs. With subsequent years, government participation by way of equity shares went on increasing. By the year 1985-86, government's share was 98 percent. The investment pattern made on the enterprise by way of both equity and preference shares is shown in Table 5.1 in page 48.

Over the period from 1966-67 to 1985-86, we notice that government investment in the enterprise has increased to an enormous extent. As table 5.1 shows, during this period, government participation in the share capital of the enterprise has increased a little less than 12(twelve) times. However, inspite of such phenomenal increase of investment, the enterprise has come for its major shortfalls as shown in Table 5.2 in page 49.

In Table 5.2, we see that the enterprise was incurring losses every year (except in 1971-72) since 1966-67 (its initial year of production) till 1985-86, that is. till the end of the year under study. This has adversely hampered the

Table 5.1

Investment Pattern in MCCL, 1966 to 1986

(Rs. in lakhs)

Year	Equity share	Preference share	Total value of shares	Government participation
1966-67	41	50	91	70 (77)
1967-68	41	50	91	87 (96)
1968-69	288	100	388	110 (28)
1969-70	388	100	488	100 (20)
1970-71	438	100	538	528 (98)
1971-72	450	100	550	539 (98)
1972-73	466	100	566	555 (98)
1973-74	511	100	611	599 (98)
1974-75	541	100	641	629 (98)
1975-76	541	100	641	629 (98)
1976-77	541	100	641	629 (98)
1977-78	541	100	641	629 (98)
1978-79	541	100	641	629 (98)
1979-80	541	100	641	629 (98)
1980-81	651	100	751	736 (98)
1981-82	651	100	751	736 (98)
1982-83	651	100	751	736 (98)
1983-84	701	100	801	785 (98)
1984-85	751	100	851	834 (98)
1985-86	751	100	851	834 (98)

Note : Figures in the parentheses indicate the percentage of shares held by the Government of Meghalaya.

Source : Annual Reports, MCCL, 1966 to 1986.

Table 5.2

Profit and Loss Position of MCCL, 1966 to 1986

(Rs. in lakhs)

Year	Government Participation	Index (base 1966-67 = 100)	Profit (+)/ Loss (-)
1966-67	70	100	- 18
1967-68	87	124	- 50
1968-69	110	157	- 19
1969-70	100	142	- 0.75
1970-71	528	754	- 12
1971-72	539	770	+ 0.17
1972-73	555	792	- 22
1973-74	599	855	- 19
1974-75	629	898	- 23
1975-76	629	898	- 22
1976-77	629	898	- 46
1977-78	629	898	- 30
1978-79	629	898	- 47
1979-80	629	898	- 46
1980-81	736	1051	- 7
1981-82	736	1051	- 6
1982-83	736	1051	- 163
1983-84	785	1121	-138
1984-85	834	1191	- 197
1985-86	834	1191	- 133

Source : Annual Reports, MCCL, 1966 to 1986.

growth of the enterprise directly and that of the state indirectly. The enterprise has placed a burden upon the tax-payers who indirectly financed the enterprise. It becomes apparent, that the enterprise was really in red for a period of two decades. Only in one year, that is, in 1971-72, the enterprise managed to make a profit of a very small and negligible amount of Rs.17 thousand. It is worth mentioning, however, that even this recorded profit seems to be doubtful, for according to the Auditors' Report for 1971-72, the actual profit was inflated due to the crediting during the year of an excess provision of interest made in earlier years to the tune of Rs.4,24,542.27p.[3] The cumulative loss, the enterprise was making from 1966-67 to 1985-86, stood at Rs.998 lakhs. Such a huge loss, therefore, raised many doubts regarding the efficiency of the enterprise especially after analysing the fact that during the same period, the government had invested capital worth Rs.11,023 lakhs.

In the context of the above position, it would be interesting to make an attempt to specify some of the factors responsible for the poor financial performance of the enterprise. MCCL, a public sector enterprise has still a long way to go before reaching its optimum capacity utilisation as well as production. In this regard, a clearer picture of the situation can be drawn from table 5.3 as shown in page 51.

A look at table 5.3 shows that capacity utilisation in MCCL was very low, in fact was only 49.2 percent in 1986-87. When we compare this with Assam our nearest neighbour, we are likely to be plaqued with cynicism because MCCL's capacity utilisation was too much on the lower side. Excepting Uttar Pradesh, MCCL came nearest to no other state in capacity utilisation. The situation

Table 5.3

Statewise Installed Capacity and Production of Cement Industry in India, 1986-87 (in lakh tonnes)

State	Installed capacity	Production	Production as Percentage of installed capacity
Andhra	64.65	53.64	82.97
Assam	2.00	1.64	82.00
Bihar	24.03	12.05	50.12
Gujarat	39.74	32.75	82.41
Haryana	5.80	5.48	94.48
Himachal Pradesh	7.60	7.61	100.00
Jammu & Kashmir	2.00	1.21	60.50
Karnataka	39.17	28.81	73.55
Kerala	4.20	2.76	65.71
Madhya Pradesh	87.27	78.43	89.87
Meghalaya	1.99	0.98	49.25
Maharastra	22.02	13.66	62.03
Orissa	9.61	9.11	94.79
Tamil Nadu	42.34	38.03	89.82
Uttar Pradesh	25.87	10.10	39.04
West Bengal	6.00	3.95	65.83

Source : Data on Cement Industry in India, ACCL, Bombay, 1987.

looks even more distressing when we compare the extent of capacity utilisation with other cement units in the public sector as will be shown in table 5.4 in page 53.

In table 5.4, we notice that MCCL in 1986-87 was trailing well behind other cement producing units in capacity utilisation. While other units managed to utilise more than 50 percent to 70 percent, MCCL was yet to reach the percentage capacity utilisation of 50 percent. The low capacity utilisation was also accompanied by excessive manpower. According to the specification of the National Productivity Council for cement industry, for a plant size upto 6 lakh tonnes per annum capacity and having a wet process of production, the required norm for manpower employment should be in the range of 4 to 10 manhours per tonne.[4] Even if we take 10 manhour as a norm, we find that for the MCCL labour productivity was almost half to that of the norm. MCCL which falls under this category is thus found to have an excessive manpower as shown in table 5.5 in page 53.

The table 5.5 shows a deteriorating situation, thus specifying that in MCCL there was absence of proper manpower planning and unless steps in this regard are taken by the management, the enterprise is likely to be plunging headlong to total inefficiency in capacity utilisation as well as in production.

Factors Responsible for the Poor Financial Performance in MCCL

From the perusal of the Annual Reports including the Director's Reports and the Auditor's Reports of the enterprise for the period under study, that is, from 1966 to 1986, we may broadly categorise the following factors :

Table 5.4

Performance of Some Cement Enterprises in the Public Sector in India, 1986-87
(in lakh tonnes)

Enterprises	Capacity	Production	Percentage capacity utilisation
CCI	30.87	20.41	62.2
Orissa Cement	5.61	4.18	74.5
Jammu & Kashmir Cements Ltd.	2.00	1.21	60.5
MCCL	1.99	0.98	49.2
Malabar Cements	4.20	2.76	65.7
Tamil Nadu Cement Corporation:			
1. Alangalam	4.00	3.13	78.3
2. Ariyalur	5.00	3.53	70.6

Source : Data on Cement Industry in India, ACCL, Bombay, 1987.

Table 5.5

Manhours Deployed in Producing One Tonne of Cement in Enterprises having a Wet Process in India, 1982 to 1986
(in lakh tonnes)

Enterprises	Capacity	Manhours/Tonne			
		1982-83	1983-84	1984-85	1985-86
Public Sector :					
1. MCCL	1.99	20.05	16.07	18.05	19.04
2. Tamil Nadu Corpn. Alangulam	4.00	13.39	15.70	11.39	12.12
Private Sector :					
1. ACC Bhupendra	4.06	8.63	10.24	9.20	9.03
2. Andhra Cement Co. Limited, Vijayawada	2.40	7.05	8.75	7.87	8.29

Source : Data on Cement Industry in India, ACCL, Bombay, 1987.

a) Capacity Utilisation

As already shown in tables 5.4 and 5.5, capacity utilisation of the enterprise has been relatively very low. Poor level of capacity utilisation, in fact, reflects an indifferent attitude of the enterprise towards raising its performance standard. The table 5.6 in page 55 helps to show the percentage capacity utilisation against an installed capacity of the plant throughout the twenty years under study from 1966 to 1986.

It is evident from table 5.6 that during the initial years of production (1966-67) and even a year after (1967-68), capacity utilisation stood at 28 percent and 47 percent respectively of the installed capacity of 82,500 metric tonnes per annum. During the period 1968-69 and 1969-70, the average capacity utilisation in India was fixed at 81 percent and 86 percent respectively of the installed capacity (see Appendix table No. A-2). As against this, it is noted in table 5.6 that the enterprise under consideration utilised during this period 87 percent and 76 percent respectively of the installed capacity. An until the year 1976-77, capacity utilisation of the enterprise fluctuated between 60 percent and 80 percent. It is significant to mention here that the authority of the enterprise had in 1978 completed the first phase of the expansion project of the plant, whereby, installed capacity was raised to 184,000 metric tonnes per annum as against 84,000 metric tonnes fixed during the year 1968-69. The table 5.6 further showed that capacity utilisation during the period 1977-78 to 1985-86, has come down ironically enough with an increased installed capacity. In fact, after 1976-77 capacity utilisation suddenly dipped down to 52 percent in 1977-78 and 36 percent

Table 5.6

Capacity Utilisation against Installed Capacity in MCCL, 1966 to 1986

(in '000 metric tonnes)

Year	Installed capacity	Production	Percentage capacity utilisation
1966-67	82	23	28
1967-68	82	36	44
1968-69	84	73	87
1969-70	34	64	76
1970-71	84	58	69
1971-72	84	67	80
1972-73	84	62	74
1973-74	84	54	64
1974-75	84	73	87
1975-76	84	63	75
1976-77	84	58	69
1977-78	184	95	52
1978-79	184	66	36
1979-80	184	54	29
1980-81	184	85	46
1981-82	184	95	52
1982-83	184	84	46
1983-84	184	96	52
1984-85	184	101	55
1985-86	184	91	49

Source : Annual Report, MCCL, 1966 to 1986.

in 1978-79. In 1985-86 and also in 1986-87 capacity utilisation in MCCL was only 49 percent asagainst that of the All India Cement Industry capacity utilisation of 75 percent in 1986-87 (see Appendix table No. A-2). It is relevant to mention that in 1969-70, the government had set 82 percent as an average norm for capacity utilisation of the installed capacity.[5] Basing on this, we may for the sake of our study consider 60 percent to 90 percent capacity utilisation as good performance. Thus we may say that during the period from 1968 to 1977, the enterprise had relatively high capacity utilisation. But during this very same period when the enterprise was running at a normal capacity rate, it still incurred a total loss of Rs.164 lakhs (1968-77) as seen from the table 5.2. Therefore, the argument that the enterprise was incurring losses due to inadequate capacity utilisation does not appear to hold ground here.

One may understand the teething difficulties of the enterprise, that is, the difficulties at the initial stages of production for which optimum utilisation of the capacity may not be possible. But considering the fact that even after the enterprise had incorporated better facilities like commissioning in 1978 and 1985 of two additional kilns of 340 tonnes productive capacity each, per day, aimed at reaching the targetted capacity of 184,000 metric tonnes per annum, the picture presented by the enterprise continued to be grim. As can be seen from the table 5.6, the capacity utilisation in 1979-80 was 29 percent, in 1980-81 was 46 percent, in 1981-82 was 52 percent and in 1982-83, it came down again to 46 percent. One may, therefore, infer that while poor utilisation of installed cpacity may be an important factor responsible for the huge loss the enterprise was making, yet there may be other reasons as well.

b) Mechanical Breakdown

When one analyses the frequent mechanical breakdown as one of the likely contributory factors for the persistent losses of MCCL, one is apt to find that this argument does not seem to be very strong, because this was merely a mechanical snag which could be easily corrected by replacing or repairing of machineries. In fact, the enterprise had been striving to do away with this problem. For instance, in the year 1979, the enterprise replaced a new raw mill motor for the old and obsolete one. Perhaps, since the enterprise was in the meantime under its expansion programme, it might not have been possible on its part to succeed in improving its existing plant. It may, therefore, be more relevant in this regard to attribute losses to problems connected with the expansion problems rather than with mechanical failure itself.

As indicated in various reports of the MCCL, late commissioning of the plant had resulted in a loss to the enterprise.[6] Our investigation made in this respect reveals that expansion of the plant began in 1967-68 when the Board of Directors realised that a daily capacity of one kiln with 250 tonnes per day was not economically viable. Therefore, the management ventured for expansion of the plant project by proposing to install two more kilns of 340 tonnes production per day each. The first of the two kilns was to be commissioned in June 1976 and the second in June 1977. But unfortunately, the enterprise did not perhaps take up this with seriousness and urgency it deserved. We notice that the two kilns supposed to be commissioned in 1976 and 1977 were, in fact, commissioned in 1978 and 1985 respectively.[7] We see here, lapse of years between the estimation and the completion of the (expansion)

project. Ultimately, cost estimates had to be revised upwards resulting in an escalation in the cost of production. For instance, in 1966-67, the Works Manager had estimated the expansion programme at an amount of Rs.452 lakhs which was approved by the Board of Directors in August 1967. But it was noticed that even till March 1974 no major work was done for the expansion programme. With price going upwards due to inflation the Directors were forced to revise the estimate resulting an increase to Rs.980 lakhs in 1975 at the instance of Development Consultants Private Limited (DCPL), Calcutta. Of the amount of Rs.980 lakh, Rs.253 lakh was advanced by the state government. But progress of the work was very slow, if anything, our investigation revealed that the work remained stagnant and cost estimate made in 1975 became obsolete again due to price rise. Eventually, cost estimate was revised again from Rs.980 to Rs.1197 lakhs in February, 1979. Although the first kiln was commissioned in 1978, but our investigation reveals that prior to the commissioning of the second kiln, another revision of cost estimate took place in December 1981 at Rs.1360 lakhs.[8]

Our investigation further reveals that along with the order of placement of two kilns, the order for the coal dryer of 20 tonnes per hour capacity was also placed in February 1977.[9] It must be noted that the erection of the coal dryer was important for the commissioning of the kilns. It also appears that the kilns in addition to the coal dryer, was in need of other accessories as well, such as packing plant and raw water supply scheme including slurry basin, slurry pump, crane, wash basin and flyover.[10] But it was found that both the kilns were commissioned even without the completion of coal dryer and some

other related accessories. We noticed that even until 1986-87, the works of the structural coal dryer as well as packing plant and raw water supply scheme were not completed.[11] Therefore, from our brief examination above, it becomes clear that in MCCL, there was lack of comprehensive and sequential planning to implement its expansion programmes, as a result of which scarce funds supposed to be used have been misused, and in fact, this seems to have been responsible for the poor financial performance, resulting in a negative return to the capital employed by the enterprise.

c) Highly-Geared Capital Structure

Another reason for the loss of the enterprise was said to be due to highly geared capital structure. Capital gearing implies a relationship between equity capital and long-term debt bearing fixed interest. And an enterprise is said to be highly geared when it has a proportionately larger issue of debentures or preference shares for raising its long-term resources. In other words, when the enterprise tilts in favour of preference and interest bearing loans as against equity share capital, then the capital structure of the enterprise is said to be highly geared.

The equity share capital can be floated in the market. Institutional loans may be secured and household savings mopped up (even sometimes the share capital may be over subscribed), only when the enterprise has a bright future and has the potency to make profit, even if it has not made any substantial profit in the initial years. MCCL, an enterprise under our consideration, had made losses year after year (see table 4.2) and, therefore, it had practically

no prospect of mobilising savings from the market. True, in the Indian context, the financial institutions including the nationalised banks may have to come forward to prop up an enterprise which from other consideration is truly 'sick', but one has to understand that even public sector financial institutions including the nationalised banks cannot go subsidising such loss at their expenses year after year. Obviously, therefore, such an enterprise can only be financed by loans which may carry a relatively high rate of interest. Or, if it is a public sector enterprise, as was the case with MCCL, the required finance was given by the state government through subscribing share capital. As we have stated earlier, augmentation of capital (both working and fixed) of the enterprise was made possible by increased funnelling of funds through state government's purchase of equity shares and not through tapping of private savings from the capital market. As shown in Table 5.1, the share of private participation remained constant at 2 percent almost throughout the period of study. Therefore, the argument that highly geared capital structure was the cause of the loss is difficult to reconcile. Rather in our opinion, it appears that the high gearing capital structure of the enterprise could be the effect of loss. The failure of MCCL to secure sufficient returns will in the long run necessitate unprecendented public debt through the government's financing of the loss. Worse still is the observation that the government turned a blind eye to the matters relating to debt-servicing which resulted not only in non-utilisation of loans, but had resulted also in huge payment of penal interest.[12] In the midst of the financial crisis, it is logical to say that this feature is disturbing enough, which if not reverted can cause great damage not only to the enterprise but more importantly to the eocnomy as a whole.

d) Non-Availability of Raw Material Like Coal

Coal is an essential raw material for cement production. Its regular and adequate supply is most necessary for the smooth functioning and optimising cement production. Besides the quality of coal has also a direct bearing on the quality of cement produced. Therefore, it is understandable enough that coal as an input has a true impact on the final output of any cement producing enterprises.

With regard to MCCL, it was found that in more than one occasion the Directors in their reports attributed to poor quality of coal and non-availability of superior quality of coal as a major obstacle to the successful working of the enterprise. An examination of the Annual Reports of the MCCL for the period under study, that is, from 1966-67 to 1985-86 shows that during this period, the amount of cement sold was to the tune of 14 lakh metric tonnes. Poor quality raw material like coal would mean poor quality input which was, therefore, likely to sap the funds of the enterprise. This is understandable enough because coal, if of bad quality, is needed relatively more in quantity for cement processing than coal of good quality. In a note submitted to the Board of Directors by the Managing Director in 1981-82, it was emphasized that it was difficult to get supply of good quality of coal from local sources. Moreover, this situation was further aggravated, since supply of coal came from private contractors who often diverted their supply elsewhere when the enterprise failed to conform with their demand price.[13] In another note presented by the Chairman of the Board of Directors to the Management Committee

in 1983,[14] it was stated that the enterprise was handicapped due to poor quality supply of coal coming from Cherra side which incidentally is located in the vicinity of the enterprise itself. It is also found from the same note that the enterprise was taking steps to transport coal from Jowai area because coal from that area was found to be superior than that of Cherra area. In the same note it was further stated that the price differential between Jowai coal and Cherra coal was so much as to become uneconomical for the enterprise to transport the former to the factory site. It is relevant to mention that we tried to get information about the actual price differential, but the same was not available. Notwithstanding the paucity of information, it may be plausible to surmise that the whole matter about the supply of good quality coal was not given the importance it deserved. In any case, we do not find enough justification for the management's suggestion to request the government to open up a buffer stock of coal at Guwahati, and at the same time to ask the government to check the movement of coal outside the state.[15] Logically, the opening of a coal depot at Guwahati for the need of the factory will not reduce, rather increase the transportation charge of coal to the factory site. Secondly, if the government was to restrict the export of coal from Jowai areas to the other areas outside the state, the demand has to be originated from the state itself. As the Chairman of the Management Committee had specified, the enterprise could have purchased coal from Jowai side, presumably at lower transport cost charge than ex-Guwahati. That would have been perhaps logically a correct step towards restriction in the movement of coal outside the state.

It seems really a paradox that while hundreds of truck-loads of coal have been going outside the state (to different parts of India), the MCCL as well as the government failed to tap this important source for their own advantage. Therefore, in this context, asking for a buffer stock at Guwahati instead of at Shillong seems to be an unnecessary and inconsistent move. Thus the blame put forth on poor quality and non-availability of coal does not appear to hold ground, since the state and the enterprise did not conform themselves with arrangements which would help easing the problem. If the state was to strive towards a higher economic order, special emphasis should have been given by the government to avail all possible facilities such as tapping of coal resources of Jowai areas to remove the hindrances that stood in a way of smooth working of the enterprise.

e) Transport Constraints

A perusal of the Director's Reports of the enterprise during the period from 1966-67 to 1985-86 reveals that there was a vast scope for marketing of cement in view of very favourable demand in the region. In the North-East Region (NER) alone, the demand for cement has been substantial enough amounting to 8 lakh tonnes in 1985 while the supply was 733 lakh tonnes which means a shortfall in the availability of cement to the tune of about 70,000 tonnes. Of this supply (of 733 lakh tonnes) only 263 lakh tonnes come from factories within the region including MCCL. This has been shown in tables 5.7 and 5.8 on page 64.

Table 5.7

Demand for Cement in NER, 1985

(in lakh tonnes)

States	Demand	Percentage of total Demand
Assam	457	56.50
Arunachal	34	4.21
Manipur	62	7.67
Meghalaya	77	9.52
Mizoram	21	2.58
Nagaland	72	8.88
Sikkim	43	5.32
Tripura	43	5.32
Total	809	100.00

Source : Marketing Report of MCCL, ACCL, Bombay, 1989.

Table 5.8

Factory-Wise Position Regarding Total Supply of Cement to NER, 1985

(in lakh tonnes)

Factory	Amount Supplied
CCI Bokajan	169
Banjari	10
MCCL	94
IDC Bargarh	6
OCL Rajganpur	10
Durgapur	13
CCI Akaltava	108
ACC Jamul	118
Raymond	18
Century Tilda	96
CCI Mandhar	91
Total	733

Source : Marketing Report of MCCL, ACCL, Bombay, 1989.

In both the tables 5.7 and 5.8, we see that MCCL could easily take advantage of the shortage of cement required in the region by efficiently working on its capacity. Besides, it has also been found that the development activities in the NER has been growing manifold. To meet this, the estimated demand for cement in 1990 for the NER was put at 13 lakh tonnes with Assam alone requiring about 8 lakh tonnes and with Meghalaya alone about 1 lakh tonne. In this context since demand is already there, therefore, there can be no selling constraints for MCCL, not only in Meghalaya itself but also in other parts of the NER. If MCCL produces 85 percent of its rated capacity, it could easily feed 12.5 percent of the total requirement in the NER in 1990 or 21 percent of the total requirement in Assam only or 17 percent of the combined requirement of Assam and Meghalaya during the same year.[16]

The MCCL enjoyed relatively better and advantageous position for extension of its marketing network to the whole of the NER. MCCL apart from being a local enterprise with intimate knowledge of local conditions, it also enjoyed lower cost of distribution compared with other enterprises located outside the NER. Besides, by virtue of its locational advantage, the freight cost for transporting cement in the region was obviously also much less. As the report on marketing for reactivation of MCCL given by ACCL suggests, MCCL primary market lies in Assam and Meghalaya and, therefore, its sales efforts must be directed in this area. The remaining part of the NER, particularly Manipur and Nagaland should serve as secondary market. As demand may fluctuate

for various reasons, the secondary market should act as a supporting one during bad period.[17]

Judging from the above standpoints, one may easily argue that there should have been no difficulty in marketing MCCL's cement in order to augment its profitability. Thus a vast scope of marketing facilities notwithstanding, the management thought transportation of cement was an important hindrance. In view of the fact that cement is brought from outside the state, the demand in the region being in excess of the supply, there seems to be little justification in demonstrating transport bottlenecks as contributing towards poor financial performance of MCCL. In this context, absence of marketing organisation can be attributed as being more responsible for low level performance of the enterprise. What seems more perplexing in this connection is the fact that the enterprise had even managed to open up sales depots in the region in various places such as Cherra, Shillong, Silchar, Nowgong, Jorhat, Tinsukia and Dibrugarh in the initial years of production, that is, during 1966 to 1970. If transport had been the problem, the question that arises is: how it became possible for the enterprise to transport the cement in the depots. The enterprise later closed down all the depots one after another, starting from Dibrugarh and Tinsukia in 1969 followed by Jorhat and Nowgong in 1970. Even Shillong depot was also closed down in 1973 on the plea, as mentioned earlier, of transport bottlenecks. But as we shall see in the following lines, transport bottlenecks were perhaps much exaggerated.

The enterprise by closing its depots deprived itself of better marketing

network facilities in the region which it could have retained. The Transport bottlenecks sometimes appear as a genuine general problem as far as NER is concerned. But at the same time it has to be admitted that this has not been peculiar to any particular enterprise such as MCCL only. In spite of this problem, enterprises from the rest of the country are sending their merchandise to this region and selling them at profit. Therefore, transport bottlenecks per se should not be used as a scapegoat for hiding any real deficiency in the managerial operation. In other words, an enterprise must work under certain environment and parameter which during a short period had to be accepted as given constraints. It should have been the duty of the management to maximise its efficiency within the given constraints.

Again in a note of MCCL (1981-82) presented by the Managing Director, it was revealed that a proposal was made by the Meghalaya Industrial Development Corporation in collaboration with the Air Transport Corporation to float a 'joint sector transport company' to help easier transportation of cement. Besides this a ropeway construction was also proposed by the MCCL itself to transport cement from Ishamati to Byrnihat via, Mawmluh and Shillong. But no steps seem to have been taken so far, either by the MCCL itself or by the government to implement these plans. Therefore, our analysis on this account shows that the enterprise had by and large failed to take advantage of the scopes offered by the market for selling the product in order to enhance its return. In fact, the blame put forth on transport constraints far outweighed the presence of a ready market awaiting exploitation.

f) Dearth of Technical Hands

Like transport constraints, the Annual Reports of MCCL were replete with another so-called and often quoted cliche "death of technically qualified personnel" for the plant. This argument could have held ground, if at all, in the initial years of function of the enterprise and prior to the creation of the state of Meghalaya, that is, prior to 1971. But after the creation of the state, every year dozens of boys and girls are sent to technical institutions outside the state to be trained as engineers and technicians in different fields by the state government out of its 'quota'. This is accompanied by the condition that the students on completion of their study will have an obligation to serve the state should the government offers any offer. But ironically, although a good number of students are trained in various engineering disciplines, on government scholarship and financial aid, every year, it appears that the government did hardly anything to get their service in return. This apart, inadequate advertisements and improper streamlining of employment, in short, imperfect manpower resource planning seem to be responsible for the so-called dearth of technical hands for the enterprise.

It seems perplexing in this connection that the problem of shortage of technical hands persisted even till 1985-86. We may specifically mention that in 1983 the management committee's report specified that unless adequate manpower was inducted in the plant, capacity utilisation could not be fully utilised.[18] The same contention was repeated in 1985 by the Works Manager of the enterprise.[19] On both occasions, the management committee as well

as the Works Manager voiced along same lines of argument that dearth of technicians was due to the remote location of the plant, adverse climatic conditions and that the payscale structure was too low, besides, almost complete absence of recreational facilities which sapped one's ardour to work. These arguments seem superficial enough when one analyses the fact that cement plants are more often located not in metropolitan cities or towns (distance argument); besides Khasi and Jaintia Hills area is reputed in having an extremely good climate (poor climatic argument). The argument of poor payscale structure also does not seem to hold good because in any case, pay-scale structure in the enterprise was in accordance with the Meghalaya Government Rules which is not supposed to be less than what is available in similar situation elsewhere. With little improvements like provision of better leisure and better living facilities, competent technicians could be attracted very easily. Thus, a critical examination of the arguments put forward by the management of the enterprise reveals that, if not redundant and superfluous, they were alteast overstressed.

It is relevant to mention here that although we have seen in table 5.5 that the manpower deployed in MCCL compared to other similar processing units, whether in public or private sector, is in excess, this, as per our investigation, does not contradict the management's version of the dearth of technical manpower as one of the reasons for bad financial performance of the enterprise. As stated, the management's explanation about the dearth of technical manpower was just a minor fragment of the total manpower required for the operation of the enterprise. The relatively excess manpower in MCCL as shown in table

5.5 seems to indicate therefore, that the management had taken recourse to recruit a large number of non-technical personnel or persons with inadequate skill or expertise. Secondly, it is true that one skilled technical personnel cannot be substituted by two or three other non-technical hands. Therefore, considering this, the management should have monitored the production of the enterprise against various inputs including capital (plant and machinery) and labour (technical and non-technical); to the extent the shortfall from the optimum production has been due to the dearth of technical hands, an autonomous body like MCCL should have gone for a proper recruitment policy with adequate incentive to recruit the right person for the right job. Our investigation reveals that some important positions like engineers (mechanical, electrical, civil, instrument and mines), chemists and overseers have remained vacant (for details, see Appendix table No. A.3). Therefore, it may not be out of place to say that the immediate need of MCCL was to have an adequate streamlining of employment, so as to help the enterprise to pull itself away from its further deterioration.

g) Other Factors

A further examination of the Auditor's Reports, Profit and Loss Accounts and Balance Sheets of MCCL for the years 1966-67 to 1985-86 reveals that books, records and registers were haphazardly maintained. The same observation has also been made by the Committee on Public Undertakings (CPU) Report and the Comptroller and Auditor General of India (CAG) Report.[20] The details of expenditure were not always available and this had often resulted in diffi-

culties to prepare accounts and expenditure incurred in the process of the operation of the enterprise. Financial mismanagement seems to have ruled the enterprise. In the first place, delaying in the expansion programme was detrimental to the enterprise as it had to bear the burden of cost escalation. Secondly, lack of organisation and coordination accompanied by uneconomical operation had resulted in a wastage of quite a substantial amount of public funds. For instance, an amount of Rs.35 lakhs was never recovered from the contractors for their failure to complete the work in connection with the expansion programmes and the civil works of the enterprise.

One may note in this connection some instances of very important 'slip' in the financial management of the enterprise - if one may so mildly - viz., in not recovering the compensation due from contractors to the enterprise for late commissioning of the work. But instead of pressurising the contractors for fulfilling their commitment in completing their work within the stipulated date, it has been noticed that on many occasions the management succumed to the contractors' demand and even paid escalation cost, contrary to the procedure, by which the contractors were supposed to pay damages to the enterprise. Besides, the enterprise also had expended various avoidable expenditures to the tune of Rs.83 lakhs caused by the non-acceptance of lowest tendered contract; lack of speed to finalise operational programmes and in this process contractors' claims for price escalation had to be incurred by the enterprise; unnecesary payment to the contractors for their staff maintenance even after the work was completed. This huge amount if avoided could have lessen the

amount of loss the enterprise was making.[21] Further, cases of defalcation of funds of the enterprise have been observed and recorded.[22] The enterprise had on one occasion - in 1974 paid Rs.3 lakhs for the missing 48 items of equipments and the recovery of this expenditure was yet to be obtained from the Insurance Company[23]. Obviously, huge amounts of funds have been drained out of the MCCL, for which, to our knowledge nobody could be found to be responsible. An enterprise failing to maintain financial discipline was bound to see rainy days.

When we analyse the above findings, we may come to the conclusion that this enterprise was seriously sick in the sense that its operation was encountered with pitfalls and failures such as lack of sense in husbandry of resources and unproductive use of community's savings.

In the next chapter entitled "An Evaluation" we take up the ratio analysis, principles of budgeting, non-monetary objectives etc. wherein the performance of the enterprise will be further scrutinised in the light of some implied and explicit objectives.

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Chapter - 6

AN EVALUATION

Introduction

In evaluating the performance of a firm, it is necessary to look critically at managerial decisions. The decisions often are reflected in the financial statements. But the latter themselves do not convey any meaningful information unless, of course, a careful analysis and interpretation are made from them. Financial analysis, therefore, helps in the process of identifying the financial strengths and weaknesses of a firm.

First, we take up ratio analysis. Then we move on to budgetary principles. Third, we study the price formulation policy of the enterprise, if any. The last two sections deals with certain non-monetary objectives the enterprise was expected to fulfill and in that context, we would look, to what extent if any, the enterprise succeeded to bring about an industrial culture in the state.

Ratio Analysis

A ratio is a quantitative relationship between two numbers. Ratio analysis in the context of our study, refers to the technique of mathematical interpretation of the financial (or other) activities of an enterprise so as to enable one to identify the strengths and weaknesses of the enterprise from the point of view of financial variable. Through it, one can pinpoint whether the performance of the firm is improving or deteriorating. It may be mentioned here that although no hard and fast rule can be imposed usually on the standard level of ratio, there are some acceptable norms nevertheless. However, ratios tend to vary from one firm to another depending upon the types of goods and

services supplied by any particular firm. One method most commonly employed to evaluate the performance of a firm is to select and then calculate the data from the financial statements of the firm and compare the present ratios with the past ones. This method called the 'comparison overtime' reflects whether the performance of the firm is improving or deteriorating or remaining constant over a period of time. Following this method, an attempt is made to calculate the ratios of the MCCL for the period 1966-67 to 1985-86 and the information available is expected to make one to take corrective actions for future improvement of the firm. Although there are many types of ratios which can be calculated from the relevant financial statements,[1] but, given the scope of our study, our investigation has been limited to current ratio, quick ratio, sales inventory ratio and debt equity ratio.

a) Current Ratio

Current ratio (CR) may be defined as a relationship between current assets and liabilities of the firm. Current assets (CA) include all the assets of the firm which can be easily converted into cash within a short span of time, usually one year. Current liabilities (CL), on the other hand, are those obligations which are payable within a short period of time, generally one year. This ratio helps one to analyse the short-term financial position or liquidity of the firm. In symbols, we may put this ratio as,

$$CR = \frac{CA}{CL}$$

The importance of CR lies in the fact that if CR is relatively high, then it implies that the firm has the ability to meet its current obligations in due time. A relatively low CR indicates that the liquidity position of the firm is weak, in which case, the firm may be in a difficult position to meet its current obligations. Conventionally, 2:1 ratio is considered a satisfactory standard of liquidity for a firm. In the case of the MCCL, table 6.1, as given in page 78, exhibits the CR from 1966-67 to 1985-86. In estimating the CR we have taken on the current side the following items : interest receivables, tools and implements, equipments, stock of stores, raw materials, stock in trade, cement stock, sundry debtors and other debts recoverable in the short period. On the current liability side the following items have been included : sundry creditors, sundry debtor suspense, advance payment, security deposit, share application money, bank overdraft, and stores and spares suspense.

In table 6.1 we notice that during the twenty years of study, excepting the years 1967-68, 1968-69 and 1969-70, the overall liquidity position of MCCL was not at par with the conventional ratio of 2:1. The mean $\bar{x}$, calculated for CR is found to be 1.52 and the standard deviation is .06. Throughout the seventies and till the mid-eighties the CR was going downhill, thus implying that the enterprise was finding difficulties to pay off its CL in due time presumably because it might have failed to sell inventories or to realise cash from the debtors. Yet, the fact that the enterprise could pull on without losing its 'goodwill' notwithstanding, its relatively lower current ratio was plausibly due to the budgetary support of the government. Which is why this ratio,

Table 6.1

Current Ratios of MCCL from 1966 to 1986

Year	CA (Rs. in lakhs)	CL (Rs. in lakhs)	CR = CA/CL
1966-67	126	113	1.11
1967-68	137	104	1.31
1968-69	238	106	2.24
1969-70	274	119	2.36
1970-71	227	102	2.22
1971-72	239	128	1.86
1972-73	248	197	1.25
1973-74	284	219	1.29
1974-75	321	281	1.14
1975-76	3.91	274	1.42
1976-77	489	326	1.50
1977-78	455	332	1.37
1978-79	425	299	1.52
1979-80	391	265	1.47
1980-81	465	268	1.73
1981-82	618	326	1.89
1982-83	722	489	1.47
1983-84	709	590	1.20
1984-85	759	779	0.97
1985-86	835	778	1.07

$\bar{x}$ = 1.52

S.D. = .06

Source : Annual Reports, MCCL, 1966 to 1986.

even when adverse, perhaps did not affect its normal operation, but what is relevant for our purpose is that it did not even transmit a warning signal to the management for better performance. However, it should also be pointed out that unlike private sector firm, a public sector enterprise like the MCCL having a very low external debt (or equity participation by non-government insitutions or individuals) was not required to take recourse to 'window dressing' by manipulating or overvaluing the current assets or excluding some short term liabilities from its current liabilities. And, therefore, since it did not have to pretend to the 'outside world' anything better than what was the actual state of affairs, we may accept that even somewhat adverse current ratio by itself need not necessarily reflect any insensitivity of management, for a manufacturing enterprise such as the MCCL was likely to have a lower CR than a trading firm, other things remaining the same.

b) Quick Ratio

Quick ratio (QR) is arrived at by deducting inventories (I) from CA and this difference is divided by CL^2. In symbols,

$$QR = \frac{CA-I}{CL}$$

In computing inventory we have taken the following as its components : raw materials, stores and spares, work in progress, semi-finished and finished goods. It may be mentioned in this connection that the Auditors in their reports for various years have pointed out very clearly that the management has not

been adequately maintaining the details of records with regard to inventory.[3] This difficulty notwithstanding, we have made an attempt to supplement the information obtained from the CR by computing QR. This is because even though CR indicates short-term liquidity position of the firm, it cannot give an accurate quality of assets. In fact, it gives only a crude ratio measuring the quantity of current assets. Therefore, this inadequacy can be checked and tested by QR. QR measures the capacity of the firm to pay off its current obligations in due time. Higher the QR, higher, it is presumed, is the liquidity position of the firm indicating thereby, firm's capability to meet its CL. Generally a QR of 1:1 is considered satisfactory. The QR of the MCCL for the period 1966-67 to 1985-86 is shown in table 6.2 on page 81.

A look at table 6.2 indicates that the MCCL was in a relatively good position to pay off its obligations timely. Excepting the years 1966-67, 1971-72, 1973-74, 1982-83, 1983-84, 1984-85 and 1985-86, the QR was relatively high and even exceeded the standard ratio of 1:1. The mean $\bar{x}$, and the standard deviation, calculated for QR are 1.15 and .11, respectively. But here it must be noted that in the case of the MCCL, one needs not be very much optimistic and complacent about a relatively better QR as indicated in table 6.2. Our examination of the Auditor's Reports of the relevant years shows that over the years the outstanding debt of the enterprise has been increasing which shows that the enterprise was perhaps not in a very good liquid position as otherwise it should have been, which may, perhaps, be due to the slow moving of inventories. However, as said above, due to the protective umbrella of

Table 6.2

Quick Ratios of MCCL Computed from 1966 to 1986
(Rs. in lakhs)

Year	CA	CL	Inventory (I)	CA-I	Quick Ratios $\frac{CA-I}{CL}$
1966-67	126	113	45	81	0.71
1967-68	137	104	45	92	0.88
1968-69	238	106	60	178	1.67
1969-70	274	119	58	216	1.81
1970-71	227	102	56	171	1.67
1971-72	239	128	54	185	1.44
1972-73	248	197	48	200	1.01
1973-74	284	219	80	204	0.93
1974-75	321	281	62	259	0.92
1975-76	391	274	65	326	1.18
1976-77	489	326	47	442	1.35
1977-78	455	332	67	388	1.16
1978-79	425	299	62	363	1.21
1979-80	391	265	120	271	1.02
1980-81	465	268	168	297	1.10
1981-82	618	326	184	434	1.33
1982-83	722	489	212	510	1.04
1983-84	709	590	238	471	0.79
1984-85	759	779	226	533	0.68
1985-86	835	778	349	518	0.66

$\bar{x}$ = 1.15

S.D. = .11

Source : Balance Sheets, MCCL, 1966 to 1986.

the Government, a public sector enterprise in the present economic evironment was likely to remain complacent at the fluctuation of these ratios unless of course the management was to be asked in clear terms to fend itself out of its own resources.

c) Stock Velocity or Sales Inventory Ratio

No firm can successfully carry out its production without maintaining a certain level of inventory. But the level of inventory must not be too high or too low. If it is too high it may carry a higher cost and also a higher risk of the stock becoming obsolete. A too low inventory is also not preferred as this could deprive the firm from exploiting business opportunities. To determine whether the firm has optimum stock of inventory or whether the firm manages its inventory efficiently or not, sales inventory ratio is often resorted to.

This ratio measures the velocity with which goods roll out of the factory depot for sale. In other words, it indicates the speed with which assets are converted into sales. To analyse sales to inventory ratio for MCCL for the period from 1966-67 to 1985-86, we may start with the presumption that funds were invested in various assets by the enterprise to run the business to sell goods and to earn profits. It is obvious, therefore, that an efficient management of assets will help to increase the volume of sales and profits. In computing this ratio, that is, sales-inventory ratio, we divide net sales (S) by inventory (I). A low ratio indicates inefficient management of inventory resul-

ting in poor sales, over-investment in inventory and accumulation of stocks. A high ratio, on the other hand, may not always imply favourable position of the firm. Rather, a too high ratio may indicate a case of under-investment of inventories, excessive cost incurred in replacing stock in small lots, selling inventories at very low price and in which case, all these may result in shortage of goods produced in relation to demand. For MCCL, sales inventory ratio in shown in table 6.3 in page 84.

The above table shows a somewhat favourable sales inventory ratio although it never exceeded 4 times the inventory. On an average, the ratio hovers around one to three times. Only for five years, that is, 1974-75, 1976-77, 1978-79, 1983-84 and 1984-85, the ratio was more than three. The mean $\bar{x}$ and the standard deviation calculated for sales inventory ratio have been 2.58 and .62 respectively. Although the ratio, as we have said above, seems to be favourable thus showing effectiveness of the resources employed, but an examination of the Auditor's Reports of the enterprise indicates, as stated already, that the method of valuing inventories has been very perfunctory. For MCCL, therefore, a relatively higher ratio may perhaps be due to the reasons, as mentioned above, like under-investment of inventories, buying of stocks frequently in small lots and low sales resulting in low customer patronage.

d) Debt Equity Ratio

This ratio is often considered as the pulse of financial performance of the enterprise. The ratio helps one to determine the ability of the firm to meet its long-term obligations. In other words, it indicates the relative claims

Table 6.3

Sale to Inventory Ratios of MCCL from 1966 to 1986

Year	Net Sales (S)	Inventory (I)	Sales to Inventory Ratios
1966-67	38	45	0.84
1967-68	66	45	1.46
1968-69	140	60	2.33
1969-70	124	58	2.13
1970-71	126	56	2.25
1971-72	154	54	2.85
1972-73	141	48	2.93
1973-74	130	80	1.62
1974-75	237	62	3.82
1975-76	176	65	2.70
1976-77	170	47	3.61
1977-78	158	67	2.35
1978-79	247	62	3.98
1979-80	232	120	1.93
1980-81	381	168	2.26
1981-82	511	184	2.77
1982-83	568	212	2.67
1983-84	725	238	3.04
1984-85	829	226	3.66
1985-86	851	349	2.43

$\bar{x}$ = 2.60

S.D. = .62

Source : Profit and Loss Accounts, MCCL, 1966 to 1986.

of creditors and owners on the assets of the firm. Debt equity ratio is represented as a proportion of outsiders' funds to share holders' funds. Debt equity ratio is also known as 'external-internal ratio'. Normally, a 1:1 debt equity ratio reflects a conservative way of doing business. A risk-taking enterprise may like to have a higher debt-equity ratio. However, in India generally risk is neither very much preferred nor allowed. Banks in India usually accept a debt equity ratio upto 3:1 and in certain cases even as high as 4:1.[4] The debt equity ratio of MCCL is presented in table 6.4 on page 86.

The picture presented by table 6.4 reveals a favourable debt equity ratio for MCCL. In fact excepting the years 1966-67 and 1967-68, the ratio fell below the standard of 1:1. For debt-equity ratio while the mean $\bar{x}$, is found to be .53, the standard deviation is calculated at .09. But although debt equity ratio is found to be favourable, yet we also see that the enterprise has been incurring losses year after year since its intitial stage of production. This shows, therefore, that debt equity ratio, per se, does not perhaps give a correct indication of the health of the enterprise. As stated earlier, a risk-taking enterprise may venture for taking fund from capital market in the form of debentures and deposits, or from the financial institutions, thereby, increasing its debt-equity ratio, the firm in such a situation may be constrained to make adequate profit after meeting obligations on account of interest payments, etc.. A low debt equity ratio, however, reflects a lesser liability on the part of the enterprise, in our case the MCCL. Therefore, the fact that the MCCL has not been able to come out of its 'red' position, a low debt equity ratio notwithstanding, shows that the causes of its bad financial performance lie

Table 6.4

Debt-Equity Ratios of MCCL from 1966 to 1986

(Rs. in lakhs)

Year	Outsiders' Funds (CL)	Shareholders' Funds (Equity)	Debt Equity Ratios
1966-67	113	91	1.24
1967-68	104	91	1.14
1968-69	106	388	0.27
1969-70	119	488	0.24
1970-71	102	538	0.18
1971-72	128	550	0.23
1972-73	197	566	0.34
1973-74	219	611	0.35
1974-75	281	641	0.43
1975-76	274	641	0.42
1976-77	326	641	0.50
1977-78	332	641	0.51
1978-79	299	641	0.46
1979-80	265	641	0.41
1980-81	265	751	0.35
1981-82	326	751	0.43
1982-83	489	751	0.65
1983-84	590	801	0.73
1984-85	779	851	0.91
1985-86	779	851	0.91

$\bar{x}$ = 1.53

S.D. = .09

Source : Balance Sheets, MCCL, 1966 to 1986.

elsewhere.

In the context of our study, we have mentioned that profit or an adequate return from capital invested plays a key role in inducing business to continue. An adequate return, therefore, should be one of the main determinants of the overall efficiency of any business concern. In the socio-economic and politico-legal environment in India, profit provides, subject to some overall considerations, a measure or an index of efficiency in management of the resources of an enterprise. But unfortunately, as far as MCCL in concerned, this enterprise has not been in a position to make profit in any years (excepting in 1971-72 when there was a marginal profit, see table 5.2). Therefore, there is no question of analysing the trend of profit unless some significant change by way of better management seems inescapable for bringing about adequate return.

Judging from the preceding analysis, one can say that the enterprise has proved itself to be seriously sick. An attempt has been made in the foregoing pages to explain some of the symptoms featuring sickness of the enterprise. Important among them seem to be slow turnover, slow off-take of stocks and over valuation of stocks as a result of which the enterprise was incurring losses year after year. From the finding we can also say that the enterprise lacked proper demand estimation for the products to be sold, poor-debts collection and inadequate inventory management. The capital structure was also defective in the sense that although for two decades it could not make any profit, yet it could sell equity share to the goverment. Such protective umbrella provided by the government has, in our opinion, made the enterprise insensitive to its

obligations. This apart, delayed construction and operations resulted in cost escalations and larger borrowings from the government which were later converted into equity capital. But above all, managerial ineffectiveness, poor control on key areas of operations such as finance, inventory and marketing could be said to be more responsible for bad financial performance of the enterprise during 1966-67 to 1985-86. Ironically, MCCL was taken over by the government due to its inability to make any headway, but it seems that the taking over by itself did not show any improvement in its financial function during the period 1966-67 to 1985-86.

More than the financial loss, seems to be the non-tangible loss to the economy of the small state like Meghalaya, for contrary to expectation, the MCCL has failed to contribute in a significant way to the state's industrialisation and economic development. Growth of a modern and progressive industrial sector sometimes owes substantially to one or two leading enterprises. The successful functioning of the latter gives rise to a professional group of managers in the field of finance, personnel technology, etc.,

Budgeting Principles

Budgeting is an important means by which the management of an enterprise can formalise its plan of action. The budgets serve as a technique to control, coordinate and also compare actual results with reference to set targets. On the basis of certain given situation or environment, usually a budget is prepared and it gives opportunity to the management to control and monitor the activities so that the predetermined targets are achieved by effectively coordinating the activities of various branches of operation, viz., material procurement,

recruitment, transport and sales, etc.. Therefore, an enterprise's budget reflects joint planning of all operating segments. Its fulfilment, therefore, requires active participation and consultation of all functionary segments of an enterprise.[5] Depending upon the nature of the product and tax laws the budgetary period may be determined. Two factors are relevant in this context. One is that the period should not be too long a period which does not allow and enterprise to make any fairly accurate forecast possible. The other is that it should not be too short a period for which any deviation in the matter of strategy, policy or procedure is not possible.

Budgeting may be fixed or flexible. Fixed budgeting as the name would suggest is so designed as to suit static conditions, that is to say, it is resorted to only if price, sales, expenses and cost can be predicted accurately. But since modern productive organisation is dynamic and unpredictable, it is advisable for any enterprise to have a flexible budgeting which is comprehensive enough to embrace the entire organisation and for different levels of activity such as production, sales and cost estimates, material projects estimates, labour and personnel estimates, overhead and plant maintenance estimates, manpower budget, research and development estimates, capital employed and expenditure budgets, profit and loss estimates and cash flow estimates. Flexible budgeting is most essential, for it provides the management with information obtaining from past happenings and, therefore, projecting forward the effect of the working of the enterprise in the future.

So far as flexible budgeting is concerned, MCCL appears to have not taken it into consideration. This may be seen from the inability of the enterprise to forecast demand and profit. We have come across instances of manpower and material shortages, absence of research and development, frequent revisions of schemes and delays in expansion programmes (see chapter 5). All these had led to heavy losses to the enterprise in its productive operations which were due to non-adoption of flexible budgeting as a suitable management policy. Further, the form of budgeting adopted by the enterprise was by and large bureaucratic-procedurial in nature which was not conformed with the larger interest of this industrial and commercial enterprise. Therefore, the immediate and compelling need of the management of MCCL was to provide a plan of action necessary to serve the requirements of external accountability and internal control and, therefore, to enable the enterprise to project itself into the future without forgetting, of course, the actual performance in line with promises and intentions.

Price Policy Formulation

About price policy formulation, MCCL had no independent policy of its own. Fixation of prices rested with the Government of India, and was guided by a broad view to ensure that the consumers were not to be exploited by the attitude of 'leave it or take it', when the consumers were left with no alternative source of supply. It can be mentioned that although partial decontrol of cement price, was effected by the government in February, 1982, the total

decontrol became effective only in March 1989. Therefore, during the period of our study, that is, from 1966-67 to 1985-86, the MCCL had followed the decision taken by the government in matters relating to price policy.

The absence of an independent pricing policy had to some extent resulted in a number of problems detrimental to the profitability of the enterprise. The management had occasionally deplored above the unremunerative prices while selling the output. For instance, way back in 1977 when the government fixed a retention price of Rs.347 per tonne, the management of MCCL had prayed for an increase in retention price to Rs.500 per tonne. But to this the government did not pay any heed. The management while putting forth their request for an increment in retention price they argued that this could be justified on the ground that the location of the plant apart from being located in a remote area is also located in the highest rain-range of the world often depriving the enterprise from fully operating its working days. They stressed that a rise in price above the prescribed rate would help to cover much of the losses incurred by the enterprise.[6] Therefore, as we have seen above, since in the MCCL, or for that matter, many individual enterprises, pricing was externally determined, the enterprise should take price as 'given' and maximise its revenue in the context of this constraint. In this connection it may be noted that the MCCL being the only cement producing firm in Meghalaya and cement being a product which is much in demand in the state because of change in the technology of construction (use of more cement and bricks rather than lime and stone as was the practice hitherto), the enterprise was

almost operating in an oligopolistic market conditions. In other words, the enterprise was not operating in a sort of an unprotected open market with lot many competitors. Working in such a sort of sheltered market may itself be considered an advantage to the enterprise to rise above water and sustain itself beside benefiting the economy as a whole.

Non-Monetary Objectives

No enterprise can be established wihout proper outlining of objectives. As pointed out by Drucker, objectives are needed in every area, where performance and results directly and vitally affect the survival and prosperity of the business.[7]

In this context, the adoption of the concept of a mixed economy necessitated public sector enterprises to pursue among others, policies and objectives meant to protect and improve the welfare of the society as a whole. This calls, therefore, for the specification of objectives other than monetary objectives customarily defined and pursued to achieve profits. These objectives other than monetary objectives can be referred to as non-monetary objectives. Effective monetary objectives are reflected through financial performance of the enterprise. Therefore, their success and failure could be monetarily measured through profit and loss of the enterprise. But the extent of fulfilment of non-monetary objectives, on the other hand, could not always be measured in terms of money but can only be determined from improved overall social welfare brought about as a result of the establishment of an enterprise.

Coming now to the non-monetary objectives of the MCCL, the Memorandum of Association specified that the enterprise pledged to achieve among its

objectives, non-monetary and social responsibility objectives designed to improve the economic standard of the members of the society. It can be pointed out in this connection, that the areas of social responsibility of any enterprise also include environmental quality like aesthetic improvements, control of land use; community needs like health care facilities, financial support for education and scholarship and also for assorted charities such as religious, homes for aged, orphanage, community and rehabilitation centre; improvement of hard core unemployment and operation of programmes aiming to solve and remove social evils.

So far as improvement of environmental quality is concerned, it has been found that no effort was endeavoured by the management to maintain environmental quality of the area in and around the plant complex. The plant has been found to have been operated practically without any anti-pollution measures. Therefore, gaseous matters emitted by the plant were bound to affect adversely not only to human lines but also to animals and plants in and around the surroundings of the complex. No attention was paid to improve the ecological balance of the area and its surroundings have been reduced to desert. In fact, the region where the plant is located is well known by the jargon 'a wettest desert'. It is high time for the management to take steps to revert the region into the wettest oasis through environmental changes by striving to find ways and means to preserve and restore the natural wealth of the region as a whole. The management should try to educate people to treasure the vast landmass and to protect it through adequate vegetation and

afforestation.

Next, it has also been found that the MCCL had not taken any steps to further the scope of higher educational facilities for the children of nearby villages. The enterprise contributed nothing by way of offering scholarships to the needy students or even free distribution of books and stationery. At the least, the enterprise could have established a school and a library where besides, the children of its employees, the children of neighbouring villages could also get education.

Further, nothing seems to have been done to bring about an all round improvement of health facilities aimed to benefit not only the employees of the enterprise but also to benefit the neighbouring villagers. Till date no importance was given to develop institutions necessary to update aesthetic sense and scientific technology. It was also found that provision of recreational facilities was very poor and, therefore, failed to add to the satisfaction of the employees. We can also add that the enterprise provided least scope for reducing employment problem in the area, because, as has been noted from the Reports of the enterprise, no by-products (like humepipes and electrical posts) have been produced by the enterprise. Absence of by-products means absence of ancillary industries and absence of ancillary industries in turn, delimits the scope of employment.

Industrial Culture

Industrial culture implies a sort of an education which helps to inculcate

in all workers in general and industrial workers in particular, a sense of discipline and responsibility to full day's work for a fair day's wage. A worker must understand fully his duties and responsibilities just as well as he understands his rights and privileges. Besides, he should be made to feel that he is, in his own capacity building up a prosperous state. The workers should not immerse themselves or join hands with party politics but must try to make use of themselves to secure and promote personal integrity, love of liberty, understanding, industry and courage. In short, industrial culture calls for discipline on one side and efficient work on the other side. Infusion of industrial culture has become the crying need of the day when the process of production has become so large and complex.

Although it can be contended that large scale industry can help diffusing industrial culture on a greater extent, however, for the MCCL, although a medium sized enterprise, but, by virtue of its being a public enterprise, has got a major role to play to implant an industrial culture among the people. To achieve this, the enterprise should develop alternative strategy for industrialisation which will radiate stimuli throughout the economic in the state and thus help lifting it from the present state of stagnation where large scale industry has hardly taken its roots.

Inculcation of industrial culture is expected to bring about not only industrial disciplines but is also expected to help bringing about rise in amount of incomes, increase in volume of savings and ultimately higher funds for investment finance. Considered in this way, industrial culture is expected to touch

off what Myrdal says, 'a progressive spiral' which will lead the economy from the 'take off' to 'self-sustaining growth'.[8] But unfortunately so far as the MCCL is concerned, it appears from the foregoing chapters 5 and 6 that the enterprise had failed to inculcate any sense of industrial atmosphere among the people of the state. If the argument of establishing the public enterprises like MCCL was to bring about an industrial climate and culture in the state by transfering members of the growing labour force from agriculture to modern industry and also to emanate industrial discipline in the state, then the MCCL seems to have singularly failed in this objective. Therefore, it is reasonable enough to argue that the MCCL has not succeeded in satisfying any of the social obligations it was expected to meet.

An Evaluation

Evaluation can be defined as the process of obtaining informations necessary for making judgements which in turn are to be used in decision making. In the context of a business organisation, evaluation can be made on the basis of the strategy or a set of goals and major policies of an organisation. A strategy must be designed to ensure that the basic objectives of the enterprise are achieved.[9] In MCCL, whatever information has been obtained from our analyses specifically relating to financial performance, price formulation and budgeting, it is obvious that the enterprise had during the years under study, that is, from 1966-67 to 1985-86, digressed from its strategy. In its relation to monetary objectives, the achievements of the enterprise presents a picture

of an all-round deterioration. The continuous losses the enterprise was incurring speak volume of its lack of direction, proportion and priority. Unless management properly implements a change in the strategic planning, the whole organisational set-up will produce more serious handicaps resulting a viscious circle of chaos to the enterprise.

What the management could do was to evolve an effective resource allocation and an effective implementation of product policies. The management should see that the enterprise must not only mobilise external as well as internal funds but also to utilise them, to meet its obligations timely and to attain a surplus. It will also be necessary on the part of the management to specify the work plan and a corresponding work force - its quality and motivational policies. It must be concerned about whether new technology seemed imminent to be implemented or not and what level of inventory was most desirable to result in optimum productivity. Another aspect of importance lies in adequate attention to be paid to marketing, research and development policies which the enterprise lacks very much though these are all indispensible for sales promotion.[10] In this connection, it may not be out of place if we mention that in the course of our investigation, interviews taken with a good number of consumers, reveal that there was lack of sensitivity on the part of the management to cater to the needs of the consumers. The consumers have been found to be facing lots of difficultires in getting the cement from Mawmluh depot. Consumers have been forced to stand on long queques before getting their quota of cement and sometimes cement could be procured only after

a two or three days waiting. The consumers further advanced, that it became all the more difficult if they refuse to succumb to the sales officials' demand for underhand helpings. The whole situation seems to prove two things. Firstly, there was failure on the part of the management to balance demand for and supply of cement and secondly, there was lack of a systematic distribution policy which, if allowed to continue, may create an unprecedented corruption and which may deteriorate further the image of the enterpise.

It is important to add that the management must conduct its activities in conformity with strategy most suitable for raising the overall standard of the enterprise. It is most significant that the leaders in the management should possess right qualities for strategy implementation ranging from education, experience, inter-personal skill and also analytical and decision-making ability. In case these are lacking, the leaders must either be replaced or retrained for the purpose, otherwise handicaps would be liable to crop up in the business. Thus the management in its quest to measure current performance of the enterprise in order to guide it to its predetermined goal, must take an effort to pay greater attention to control problems directly responsible for the adverse performance of the enterprise. Control in turn must be responsive to changing conditions, for a rigid control tends to stagnate the performance of the enterprise. Last, but not the least, the management should create an air of awareness about the level of performance in an enterprise by facilatating direct contact between the controlled and the controller.

In evaluating the performance of public sector enterprise in the light of their objectives, it is perhaps necessary "to look at the nexus between government's policy framework, and their impact on performance of public enterprises operating as a sub-system of the overall governmental system. This is a central issue in any public enterprise system, whether it is a developed mixed economy, developing mixed economy or a centralised plan/market socialist economy."[11] If government's policy frame in the matter of recruitment policy, in awarding contract or material procurement policy runs contrary to or impedes or even restricts the efficient management, then it would not be fair to blame the enterprise for all its shortcomings. The term efficiency is, of course, ambiguous. An enterprise may fulfil government's policy frame in employment policy[12] at the expense of its revenue, or may accept the state's proclaimed policy in awarding contract but in the process may have to incur losses or sacrifice its revenue. In other words, there is a trade-off between different objectives. And it is necessary to understand not only the trade-off, but its implications in broad aggregative aspect.

A public sector enterprise need not always be evaluated in terms of profit alone. But then, it cannot be altogether ignored also at least in the longrun. In any case, there may be occasions when profit may be less relevant than better and efficient utilisation of resources. Delay in awarding contract or inadequate monitoring of the activities of the contractors are both cause and effect of management failure. And to this extent government's policy frame is responsible for them, the blame has to be shared by it.

Notes and References

1 Massie, J.L., Essentials of Management, (Prentice Hall, New Delhi, 1987), pp.188-89.

2 Sometimes prepaid expenses are also deducted from the current assets. We assume here that such expenses have been actually paid.

3 Auditor's Reports, MCCL, 1968-69, 1974-75, 1978-79 and 1982-83.

4 Bhalla, P.N., Princing and Investment in Public Enterprise (Oxford and Indian Book House Publishing Company, New Delhi, 1974), p.321.

5 Massie, J.L., Essentials of Management, op. cit., p.93.

6 Minutes of the MCCL Meeting held in the Industrial Finance Corporation of India Premise at Shillong on 18th September, 1985.

7 i) Drucker, P.F., The Practice of Management (Harper and Brothers, New York, 1954), p.64.

ii) Drucker, P.F., The Concept of the Corporation (Business and Society Review, Autumn, 1972), p.16.

8 Myrdal, G., Asian Drama, Vol.II, Section I, op. cit.

9 Glueck, W.E., Business Policy and Strategic Management (McGraw Hill, International Student Edition, 1980), p.9.

10 McLeod, R.S., Management of Research, Development and Design in Industry (Cower Press Limited, U.K., 1969), p.11.

11 Basu, Prahlad, Government Failure Overshadows Managerial Failure - Strategic Issues in Management of Public Enterprises (Economic and Political Weekly, XXV-21, May 26, 1990).

12 For example, the absorbtion of manpower in the MCCL was much above the norm as seen in table 5.5.

Chapter - 7

CONCLUSION

Concluding Observation

Having examined the financial and other related performances of the MCCL in some detail in previous chapters, we may now summarise the main findings of our study with reference to its economic or monetary objectives as well as to social or non-monetary objectives. The results of the financial performance are important from the point of view of economic objectives because these reflect a somewhat real picture of the enterprise, that is, whether it has the ability and efficiency to continue to be in the business or not. If it continuously fails to reap a return over its expenditure, then there could be no economic meaning for it to continue. From its financial performance, our investigation reveals that throughout the observed period, that is, 1966-67 to 1985-86 (excepting in 1971-72 when a negligible return amounting to Rs. 17 thousand was made), the MCCL witnessed a chronic loss (see table 5.2). This failure to reap a return by the MCCL would mean a burden upon the tax payers' shoulders as a result of the transfusion of funds through the share participation of the government which till 1986 stood at 98 percent of the total share capital. A close look into a number of ratios taken in order to verify the financial performance of the enterprise reveals an all-round inefficiency on the part of the management to run the organisation (see Ratio Analysis in chapter 6). This analysis reveals three things: one, the liquidity position of the enterprise was very much on the lower side; two, there was inefficient management of inventories resulting in low sales and three, there was lack of risk-taking by the enterprise in the form of obtaining funds from the capital market. Instead the enterprise was reduced to a state of complacency due to easy availability

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of funds (required for its operation) from the Government of Meghalaya which, as we have seen, acted as a sort of captive purchaser of the enterprise's equity shares.

Any public enterprise ought to have several dimensions. One is the public purpose dimension, then it should have a public ownership dimension and public control dimension. Also it must have an enterprise dimension. The public purpose dimension refers to the fact that a public enterprise need not merely be concerned with profit, but at the same time it has to have an enterprise dimension which implies that it ought to engage itself in activities which are of business character, and has, therefore, to concern itself with returns and adeuqate surplus which would ultimately free the enterprise from budgetary help. In other words, these two dimensions, although apparently seem to be contradictory, but in reality is not so, for after all an enterprise cannot stand on its own in the long-run simply on bounty or subsidy, implicitly or explicitly. The other two dimensions are public ownership and public control. While the former refers to ownership by government and not by the shareholding public, the latter refers to the control by government through legislature. These two dimensions together also mean that the overall activities of a public enterprise have to be scrutinised by legislative body which means the accountability of the enterprise to the public.[1]

As in the case of other public enterprises in India, so also in the case of the MCCL, the enterprise has to go through three phases, viz., sheltered phase, supportive phase and self-propelling phase.[2] The first phase has the

public purpose dimension wherein the inadequate surplus or even negative surplus earning may be ignored and government may have to cover the loss by subventions. In the second phase the enterprise ought to move from a quantitative aspect to qualitative aspect. Also a reduction in cost of production and improvement in selling techniques, etc., should be attempted in this phase. In the third phase the enterprise should come closer to being a purely profit-oriented organisation.[3] But as seen from the case study of the MCCL, we have found that although more than two decades have passed since its coming into being, it appears that the enterprise was still struggling in the first phase itself, that is to say, it was yet to stand on its own and be independent of the governmental support. Worse still, is the evidence that there was no sincere attempt by the management in particular and the government in general about a time horizon by which the enterprise should come in the third phase.

The management attempted to provide some reasons as being responsible for the failure of the enterprise to come out of the first phase. These have been discussed in chapter 5. At the risk of repetition, let us very briefly reiterate them:

First, low capacity utilisation : This argument was advanced as one of the contributing factors for the poor performance of the MCCL. It has been observed that all through the period of 1966-67 to 1985-86 the capacity utilisation was generally relatively low. But in some years when it was relatively high, in fact, at par with the All-India Average of 60 to 80 percent (during the period 1968 to 1977 for example) the enterprise incurred a loss totalling

to Rs.164 lakhs. In fact, when we consider the All-India norm of capacity utilisation of 80 percent in 1969, we find that in the year 1969-70 and also in the year 1974-75, capacity utilisation in MCCL was 87 percent. But during these years the enterprise was making a loss of Rs.75 thousand and Rs.23 lakh respectively. We find also that capacity utilisation suddenly dipped down after 1976-77 when the first phase of the expansion of the firm has been completed.

Second, excessive manpower : With regard to this, our examination reveals that there was excessive manpower deployed for cement production. According to the norm, in cement plants having capacity upto 6 lakh tonnes per annum, the required manhours should be 4-10. But in MCCL which falls under this category having 1.19 lakh tonne capacity has been found to be ranging from 16 to 20 manhours. Interestingly, there was a shortage of trained manpower implying thereby, lack of proper manpower planning in the organisation resulting in the recruitment of more untrained labour than trained labour, which eventually reduced capacity utilisation.

Third, mechanical breakdown : This was stated to be responsible for bad financial performance of the enterprise. But our investigation reveals that more important than this, was the delay in commissioning of the two kilns as part of the expansion project, that had brought in, a loss to the enterprise. The failure to speed up the expansion programme had resulted in revising of cost estimates three times. Originally, it was estimated at Rs.452 lakhs in 1966. The final estimates made in 1981, was fixed at Rs.1360 lakhs, thus showing a cost escalation of about three times the original estimates. Lack of sequential

planning, therefore, had cost the enterprise dearly. If this had been taken seriously by the management, it could have checked the cost estimates revisions and the performance of the enterprise could have rather been enhanced.

Fourth, high gearing capital structure : The management advanced that the highly gearing capital structure was another factor responsible for the bad financial performance of the enterprise. As stated earlier in chapter 5, when the enterprise tilts in favour of preference and interest bearing loans against equity share capital, then the capital structure of the enterprise can be said to be highly geared. But this seems contradictory enough, because as seen from table 5.1, 98 percent of the fund required by the enterprise was advanced by the government through its purchase of equity shares. Therefore, to say that highly gearing capital structure was the cause of the loss is hard to accept, for it looks just the other way round, that is, that the high gearing capital structure was in fact the effect of the loss.

Fifth, non-availability of good quality coal : This was put forth by the management as another contributing factor for the loss of the enterprise. But this again seems too filmsy a ground because while in many occasions, the management had stated that the superior quality coal can be brought from Jowai to Cherra; at the same time, the management requested the government to purchase coal from outside the state with Guwahati acting as a buffer stock. This is because they stated that Jowai coal was too high a price for the enterprise to afford. The contention advanced by the management regarding coal supply, therefore, lacked consistency because while coal has been going outside

the state everyday, the MCCL as well as the government hesitated to tap the coal resources and hence to improve the operation of the enterprise.

Sixth, transport constraints : The management regarded transport constraints as yet another cause for bad financial performance of the MCCL. But our investigation reveals that it was the absence of marketing network that was responsible for low sales and hence low performance of the enterprise rather than the transport constraints per se. There could be no excuse in manifesting transport constraints as barriers to optimum selling of cement by the MCCL not only in Meghalaya but also in other parts of the NER as well. This is because other enterprises have been found to be constantly marketing their goods including cement to the region and selling them at profit. Besides, the MCCL being locally situated enjoyed lower cost of distribution. Therefore, the failure of the management to exploit the market had caused the enterprise to lose the opportunity to increase its sales and lessen its bad performance.

Along with the above mentioned factors stated to be responsible for bad financial performance of the MCCL, in the course of our investigation, we have also found large-scale financial mismanagement. Firstly, as noted earlier, the failure of the management to take cognisance of the need for the commissioning of the expansion project in due time had resulted in cost escalations. Secondly, there was unnecessary and avoidable payment to the contractors inspite of their failure to do the job assigned to them within a stipulated time. Thirdly, cases of defalcation of funds of the enterprise involving substantial amount of rupees have also been noticed. Fourthly, improper maintenance

of books, registers and records had resulted in many discrepancies while valuing inventories or while assessing tax liabilities. These loopholes, therefore, were bound to lower the performance of the enterprise. Besides these, the enterprise also lacked streamlining of administration which resulted in problems like inter-twining and mixing up of ideas not always practical to the improvement of the working of the enterprise. Also the non-adoption of a flexible budgeting had made demand and profit forecasts impossible, not to speak of problems connected with labour and material inadequacy.

So far as social or non-monetary objectives are concerned, although it is true that in the case of a public enterprise like MCCL, it was established keeping in mind the requirements necessary for improving the socio-economic conditions of the state with profit motive getting its least importance. But then the assumption that public enteprises acting as pace-setters of economic development, necessitated the need for the MCCL to serve as an important source of funds for development process by yielding surplus. The chief justification for yielding surplus by the MCCL was that this surplus could provide resources for public exchequer which again could be utilised not only for reinvestment in the same enterprise but also for the development of other sectors providing welfare services to the society like health and education to be precise.

But our investigation reveals that the MCCL had failed not only to bring about a surplus return to public exchequer as a result of its chronic loss, the enterprise which has been financed by the funds of the people, had also achieved almost nothing to bring about social benefits to the society. The enterprise

could not devise schemes on a larger scale relating to social changes be it through the improvement in the environment or health or education. The enterprise did not do anything to save Cherrapunjee from becoming a wettest desert. It did not also strive to promote health facilities or educational opportunities to the people in its vicinity, not to speak of the people in other parts of the state. Finally, since the enterprise was yet to strive to deversify its products, therefore, the scope of employment was still too narrow to benefit the society.

The brief finding on the performance of the MCCL and its contribution to the society reveals that the working of the enterprise was tagged along with pretense and excuse which if, the government continues to give concessions, will throttle the very aspiration of the people to usher in an industrial atmosphere in the state of which we are still striving to achieve.

Policy Prescription

On account of the facts presented in the foregoing analysis, it becomes imperative on our part to present at least some policy prescriptions expected to revert the present state of the MCCL and to help it invigorating its lost image, so that it could come to the forefront as a premier public enterprise standing on its own feet and contributing to the economy by promptly achieving its objectives.

In the first instance, the policy makers and planners should give emphasis to the identification of the strength and weakness of the enterprise and to set specific guidelines by which the enterprise could conduct its operation neces-

sary for pursuing the most attractive opportunities in order to speed up progress and development of the enterprise. These guidelines can be classified into three parameters, that is to say, the weakness of the working of the enterprise could be attacked from three fronts, viz., Technical, Financial and Personnel. On the technical front, the management must first of all, formulate specific policy for staffing. This is to ensure the enterprise with adequate, competent and trained manpower. This, besides assuring the management of the placement of the right tools and the right conditions in the right hands, could also assure of a larger output due to human effort at lower costs. Secondly, the management should try to evolve space for the fulfilment of the objectives of the enterprise by effectively and economically utilising the resources including raw materials and machinery. The way in which resources are utilised has a lot to do with the success or failure of the enterprise because resources are connected with almost every activity of the business operation such as production, pricing and selling. Technically, therefore, sound policy and vigorous control standard must be followed to ensure that the total amount of resources is profitably employed.

On the financial front, it may first be stated that finance is the life blood for the working of any enterprise. Sufficient financial resources are, therefore, important for the successful operation of the enterprise. But it may again be stressed that a too easy availability of finance may prove disastrous to an enterprise because this may tempt the management to take things lightly

such as unwise spending of funds, which may lead to a negative effect of profitability. In the case of the MCCL, the purchase of large numbers of shares by the government had pampered the management to the extent, that they seem to have little account and interest of the profit margin of the enterprise. To check this, a limit may be imposed whereby, the government may restrict its 'subsidy' to the enterprise by limiting purchase of equity shares. This, besides leaving the enterprise to fend for itself could also be expected to motivate the enterprise into crystallising financial policies concerning with the procurement, administration and disbursement of funds in a most economical and an effective manner. But while suggesting that the MCCL should have now taken off from the government support, it is once again necessary to emphasise the point that the enterprise should not deviate from its objectives to provide employment and at the same time to earn a positive return for the state.

Another area in the financial front is with regard to the 'creation of a customer'. The term means effecting or monitoring sales improvement through the act of marketing or commercialisation of the produce of the enterprise, in our case, the cement. For MCCL, since demand is already there, the management could improve its revenue by giving proper attention to distribution policy, packaging and brand image. The impact of the brand-image, packaging and distribution policy have much to contribute to the strength of the MCCL in the market.

As noted earlier (chapter 6), flexible budgeting was not given consideration

it deserved. This had resulted in many discrepancies while making demand or profit or cash flow forecasting. The management, therefore, should utilise its discretion by giving due consideration to the effective screening of the subsequent plans and to improve the plan proposals which were not in conformity with the optimum production, pruchase and selling.

Finally, on the personnel front, the foremost task required to be carried out by the management of the MCCL would be to evolve enthusiasm among workers or 'people at work'. People at work is different from a maze of machines because this comprised of a magnified nervous system. The management, therefore, should give importance to the self-need and self-actualisation of each worker by taking concerted efforts like developing human relations in the enterprise, via., job-enrichment, creating adequate promotional avenues, good amount of leisure and positive social benefits.

It may also be noted that to some extent politics and party power played a crucial role in the working of the enterprise. In the case of the MCCL, we have seen that a good number of the members of the Board of Directors belonged to a group of politicians, most commonly of a ruling party. These people, can be said to have no idea whatsoever, about any of the activities directly involved with the production. Given a little chance, politicians could even resort to nepotism which may lead to a right man being placed in a wrong job or a wrong man in a wrong job. Therefore, the enterprise could do better if it could do away with an element of party politics. Besides, since production in the MCCL has been technically-oriented, for the resuscitation of its image

we may suggest that a technocrat should be fitted in appropriate places to bring the much needed efficiency in the operation, his function should not be subordinated to that of a bureaucrat. This would help the enterprise to combine an elaborate process of decision-making resulting in an effective task-organisation.

In conclusion it must be emphasised that the success of the enterprise would not end here. But the enterprise must resort to constant testing and evaluation necessary to enable it to adopt and adapt with the ever changing trends and tendencies so that the best possible results could be appropriated.

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2 Ibid.

3 Ibid.

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APPENDIX

Table A-I

Factors Affecting Cement Production in India, 1984, 1985 and 1986

Factors	1984	1985	1986
Mechanical Trouble	27.70(26.24)	28.08(26.86)	35.02(33.85)
Power shortage	30.67(29.05)	27.76(26.56)	22.51(21.75)
Teething Trouble	22.12(20.95)	8.25(7.89)	6.41(6.19)
Coal shortage	0.29(0.27)	0.68(0.65)	0.53(0.52)
Labour trouble	5.61(5.31)	12.30(11.77)	5.82(5.63)
Wagon shortage	2.90(2.75)	6.37(6.09)	3.63(3.51)
Raw material shortage	1.31(1.24)	1.14(1.09)	1.03(0.99)
Shortage of clinker	5.86(5.55)	3.96(3.79)	4.18(4.04)
Others	9.12(8.64)	15.99(15.30)	24.34(23.53)
Total	105.58(100.00)	104.53(100.00)	103.47(100.00)

Note : Figures in parentheses indicate percentages of total

Source : Data on Cement Industry in India, ACCL, Bombay, 1987.

Table A-2

Trends in Capacity, Production and Capacity Utilisation of Cement Industry in India, 1966 to 1986

(million tonne)

Year	Installed capacity	Production	Percentage capacity utilisation
1966-67	12.6	11.1	88.1
1967-68	13.8	11.5	83.3
1968-69	15.0	12.2	81.3
1969-70	16.0	13.8	86.3
1970-71	17.6	14.4	81.8
1971-72	19.6	15.1	77.0
1972-73	19.8	15.6	78.8
1973-74	19.8	14.7	74.2
1974-75	20.1	14.8	73.6
1975-76	21.2	17.3	81.6
1976-77	21.5	18.9	87.9
1977-78	21.9	19.4	88.6
1978-79	22.6	19.4	85.8
1979-80	24.3	17.7	72.8
1980-81	27.9	18.7	67.0
1981-82	29.3	21.0	72.0
1982-83	34.4	23.3	67.7
1983-84	37.0	27.1	73.2
1984-85	41.2	30.2	73.3
1985-86	44.0	33.1	75.2

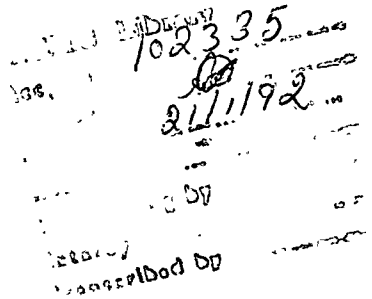
Source : Data on Cement Industry in India, ACCL, Bombay, 1987.

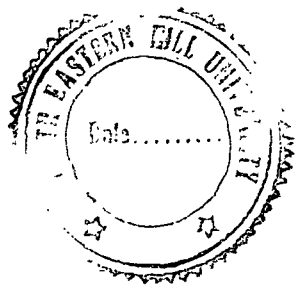
Table A-3

Shortage of Technical Manpower in MCCL, as on 30th May, 1983

		Vacancy Filled-in	Vacancy not Filled-in
1.	Engineers :		
	a) Mechanical	6	2
	b) Electrical	3	2
	c) Civil	3	2
	d) Instrument and Processing	5	4
2.	Manager :		
	Mines	3	1
3.	Chemist	7	4
4.	Foreman .	13	7
	Total	40	22

Source : Management Committee Meeting, MCCL, 30th May, 1983.

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