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Disinvestment Effects on Industrial Relations in India

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Abstract

The Government of India has decided to withdraw from the industrial sector and, in accordance with this decision, it is privatising the public sector enterprises in a phased manner. The main approach of the government in the regard is to bring down its equity in all non-strategic public sector undertakings to 26 per cent or less and close down those public sector undertakings which cannot be revived. For purposes of privatisation the government has adopted the route of disinvestment which involves the sale of the public sector equity to the private sector and the public at large. All through the period of economic reforms, successive governments at the centre have advocated the sale of public sector equity as a means of public sector 'reform'. Equity sale, as the industrial policy statement of July 1991 argued, was a means of ensuring financial discipline and improving performance. The main objective of this paper is to analyse the effects of disinvestment on Indian economy and its impact on industrial relations in India.

Key words: Disinvestment, Industrial relations, Employment, labour welfare, Trade unions

1. INTRODUCTION:

The term "Disinvestment" is the opposite of the term "Investment". Investment is acquisition of earning asset with the help of money. For example if bonds are purchased or shares of companies are purchased by spending money it is known as investment. In the case of investment money is converted into earning asset to earn income. On the other hand in the case of disinvestment an earning asset is converted into liquid cash. Here we shall use the term disinvestment in a special sense. By disinvestment we mean the sale of shares of public sector undertakings by the government. The shares of government companies held by the government are earning assets at the disposal of the government. If these shares are sold to get cash, then earning assets are converted into cash. So it is referred to as disinvestment.

Before we proceed further let us clear one semantic problem. There is a difference between disinvestment and privatisation. Privatisation implies a change in ownership resulting in a change in management. But disinvestment need not always imply change in management. Disinvestment is actually dilution of the stake of the government in a public enterprise. If the dilution is less than 50 percent the government retains management even though disinvestment takes place. It is not privatised. But if the dilution is more than 50 percent there is transfer of ownership and management. It will be called privatisation. Thus disinvestment is wider than privatisation. Privatisation implies disinvestment but disinvestment does not necessarily imply privatisation. Only when disinvestment goes beyond 51 percent it implies privatisation. The extent of dilution of the government`s stake is determined as part of the policy of disinvestment. In the following sections, an attempt is made to analyse the effects of disinvestment, benefits and issues, bodies governing the disinvestment process and various dimensions on industrial relations.

2. GENESIS OF DISINVESTMENT:

India, for almost four decades was pursuing a path of development in which public sector was expected to be the engine of growth. But by mid-eighties their short comings and weaknesses started manifesting in the form of low capacity utilisation, low efficiency, lack of motivation, over-manning, huge time and cost overrun, inability to innovate and take quick decision, large scale political and bureaucratic interference in decision making etc. But instead of trying to remove these defects and to increase the rate of growth of national economy, gradually the concept of self-reliant growth was given a quiet burial. The Government started to deregulate the imports by reducing or withdrawing import duty in phases. This resulted in dwindling of precious foreign exchange reserve to abysmally low level. This was mainly due to large imbalances in internal and external account, making economy highly venerable. There was worsening of fiscal deficit from 1985-86 due to steady increase in govt. expenditure, particularly non-plan expenditure. Fiscal deficit rose to 8.4 % of GDP in 1990-91 and the consequent rise of oil prices further worsened the situation. Erosion of confidence of government's ability to manage, led to drying up of the market for external commercial loans. The net outflow of NRI deposits also significantly added to balance of payment crisis.

The foreign debt repayment crisis compelled Government of India to raise loan from IMF against physical deposit of RBI gold reserve, on conditions harmful to the interest of the country. Thus, this resulted in genesis of the Industrial policy of 1991 which included the process of delicensing. For except 18 industries, Industrial licensing was withdrawn. The market was opened up to domestic private capital and foreign capital was provided free entry up to 51% equity in high technology areas. The aim of economic liberalisation was to enlarge competition and allowing new firms to enter the market. Thus the emphasis shifted from PSEs to liberalisation of economy. Also, the gradual disinvestment of PSUs was offshoot of unprecedented macro economic crisis during 1990 –1991.

3. CHANGE IN GOVERNMENT POLICY TOWARDS PUBLIC SECTOR:

There was a radical change in government`s policy towards the public sector in 1991 when the new industrial policy was adopted. In the new industrial policy of 1991 the role of public sector has been reduced. In the industrial policy of 1956, seventeen industries were reserved exclusively for the public sector. Moreover, there were twelve other industries which were to be progressively state owned. But in the industrial policy of 1991 only eight industries have been reserved for the public sector. These eight industries include defense production, atomic energy, coal and lignite, mineral oils, iron ore, manganese, gold and diamond, atomic minerals and railways. It has also been stated that if need arises private sector units may also be permitted to enter these industries. Thus in the new industrial policy there is no such thing as the exclusive preserve of the public sector. In the new policy it has been stated that the government will run the public sector on sound commercial principles. Chronically sick public sector units will be referred to Board for Industrial and Financial Re-construction (BIFR) for examining their viability. The unviable public sector units will be closed down. A social security net will be created for the rehabilitation of the workers working in the affected units. Another important feature of the new policy on public sector is disinvestment of some selected public sector units. It has been decided that 20% of the shares of selected profit making public sector units will be sold to financial institutions, mutual funds etc. These institutions will hold the shares for a specified period of time after which they will be permitted to sell the shares in the share market. In the new policy it is also stated that the government will provide more autonomy to public sector units. The government will not interfere in the day to day functioning of the public sector units. Instead these units will be controlled by the government through memorandum of understanding (MOU) reached between these units and the government.

It has been argued by the critics that through disinvestment and privatisation the government is substituting private monopoly in place of public monopoly. By accepting Tatas as strategic partners in VSNL and Reliance in IPCL the government has substituted state monopolies with private monopoly. Monopoly, whether in public sector or in private sector, is undesirable but between the two, public monopoly is relatively less harmful than private monopoly because public monopoly is accountable to Parliament but in the case of private monopoly there is no such accountability. Private monopoly is therefore not desirable from the standpoint of efficiency. It is really strange that the government is passing competition law to promote efficiency and restrict monopoly on the one hand and promoting private monopoly through disinvestment on the other hand.

4. THE REASONS FOR DISINVESTMENT:

There are two major reasons offered by the government for disinvestment. One is to provide fiscal support and the other is to improve the efficiency of the enterprise. The fiscal support argument runs as follows: Government's resources are limited. These resources should be devoted to areas of social priority such as basic health, family welfare, primary education and social and economic infrastructure. More resources can be devoted to these priority areas by releasing resources locked up in nonstrategic public sector enterprises. The demands on the governments both at the centre and in the states are increasing. There is need to expand the activities of the state in priority areas. It is, therefore, legitimate that a part of the additional resources needed for supporting these activities come out of the sale of shares built up earlier by the government out of its resources. The second reason for disinvestment is that it will improve the efficiency of working of the enterprise. If the extent of disinvestment is such that the enterprise is privatised and management of the enterprise is taken over by the private sector it will be free from the control of the government and will be able to function more efficiently. It is here taken for granted that efficiency is higher for a private sector than for a public sector unit. Even if the extent of disinvestment is less than 50 percent so that the government retains control of the unit, the induction of private ownership can have a salutary effect on the functioning of an enterprise. It increases the accountability of management. The share-holders have expectations about returns on their investments and their expectations are to be fulfilled. This will compel the enterprise to run more efficiently and earn more profits. Flexibility in ownership structure can, in effect, impart efficiency. In fact, the induction of the public into the ownership structure can also create conditions in which there could be greater autonomy for the functioning of the public sector enterprises. Disinvestment can be regarded as a tool for enhancing economic efficiency.

4.1. BENEFITS OF DISINVESTMENT:

- Improves efficiency in PSUs through structural adjustments
- Reduces or mitigate fiscal deficit
- Releases government's tangible and intangible, such as large manpower currently locked in managing poor performing PSUs, and their time and energy, and deploys them in high priority social activities
- Brings about a measure of economic stabilisation -New private investor will put in more money in privatised PSEs and economic activity will increase
- Introduces competition and market discipline –In present era of globalisation, disinvestment could provide stimulus to some robust PEs to grow and become truly global corporations. Disinvested companies would be exposed to market discipline and they would become more efficient and survive or will cease on their own
- Depoliticises essential services
- Consumers will be benefited as they would have more choices and cheaper and better quality products and services

4.2. ISSUESIN DISINVETMENT PROCESS:

- Losses of public interests - PSUs are resources of the nation. They belong to the people. By selling them to private companies, government is seriously affecting the people's welfare
- Fear of foreign control-Selling equities to foreign companies result in serious consequences shifting the nation's wealth, power and control to outsiders
- Issues with workers-The jobs of lakhs of workers in the PSUs will fall in danger by privatisation.
- Less number of bidders-Even though government plans to disinvest, there are actually less number of people willing to place their bids.
- Apart from these, it is the government and not PSUs who receive funds from disinvestment. This raises conflicts between the government and the employment union of the PSU.
- Impact on employees, significant increase in work load and stress and fear regarding job cuts

5. METHODOLOGY FOR DISINVESTMENT:

It has been critised that the government does not have a clear policy on the methodology of disinvestment. Earlier the government followed the policy of open auction sale. This method gave excellent result in 1994-95 when realisation was Rs. 4843 crore against the target of Rs. 4000 crore. But later in 1999-2000 the government has shifted to strategic sale. It has been argued by the disinvestment ministry that the public offer method is dilatory and takes a long time to complete the process of disinvestment. In this context it can be pointed that the public offer method was adopted in countries like UK, France, Germany, Malaysia and others. If the method can succeed in these countries there is no reason to believe that it will not succeed in India. This method is transparent and liable to much less abuse. It is really intriguing that in the case of HPCL and BPCL, the government has adopted two approaches. In case of BPCL it will adopt public offering methodology and in case of HPCL it will adopt sale to a strategic investor. It is indeed strange why there should be two approaches for two companies that are otherwise similar and in the same business. Obviously the public offering methodology has logical superiority over the strategic partner method and the public offering method should be adopted in all cases. In recent disinvestment policies, the other methodologies are also considered to reach the targets.

5.1. VALUATION OF SHARES –THE DISINVESTMENT PROCESS:

The fixation of share/bond price is an important part of disinvestment. Several aspects of the company's activities are examined while making a valuation. These could be the past performance of the company, analysis of position of the company in that industry, analysis of inherent strength and weaknesses of the business, forecasting the future performance, impact of the current policy framework and so on. Disinvested shares are listed, quoted examine and traded on the stock market. Indian and foreign financial institutions, banks, mutual funds, companies as well as individuals can buy disinvested shares / bonds. The various methods used for share price valuation are:

1. Discounted Cash Flow (DCF) Method– In this method, the all the future cash earnings capacity of the business is projected and then its present value is calculated by discounting all the earnings by an appropriate discount factor.. This is done using the concept that money has a time value.
2. Balance sheet method or Net Asset Value (NAV)–This methodology values a business on the basis of the value of its underlying assets. This is relevant where the value of the business is fairly represented by its underlying assets. The NAV method is normally used to determine the minimum price a seller would be willing to accept and, thus serves to establish the floor for the value of the business. This method is pertinent where the value of intangibles is not significant and the business has been recently set up
3. Transaction multiple method
4. Asset valuation method

All the methods (except the Asset Valuation Method) are generally used for valuation of a going concern, whereas the Asset Valuation Method is relevant only for valuation of assets in case of liquidation of a company. In addition to that, in case of listed companies, the market value of shares during the last six months is also used as an indicator. However, most PSU stocks suffer from low liquidity and the price determination may not be always efficient. Moreover, there could be increased trading activity after announcement of the disinvestment, which could be on account of high market expectation of the bid price and even based on malafide intent. This could lead to the price being traded up to unsustainable levels, which is not desirable.

5.2. BODIES GOVERNING THE DISINVESTMENT PROCESS:

1. **Cabinet Committee on Disinvestment (CCD)**–A separate "Ministry for Disinvestment" has been set up by the

central government. Also, CCD has been appointed consisting of following members: Minister for Disinvestment, Minister for Industries and Finance Minister.

2. **Disinvestment Commission**–It was formed by an executive order in August 1996 as an advisory body and not as a statutory commission. It is located in Ministry of Industry and that has led to some difficulties in its smooth functioning. In this light, it was felt that there is a need of a statutory commission. So, the Disinvestment Commission was abolished in November 1999.
3. **Department of Public Enterprise (DPE)** –It was the nodal agency to steer the disinvestment process. The department was responsible for preparing the bundles, advertising the bids and selecting the bidders.
4. **Department of Disinvestment**–After the completion of the tenure of the Disinvestment Commission in Nov. 1999, the govt. made a new Department of Disinvestment. This was done to have a systematic approach to disinvestment and hence gave a fresh momentum to the disinvestment program. Now, the main emphasis is on strategic sale of selected PSUs.

6. EMPLOYMENT AND LABOUR WELFARE IN PUBLIC SECTOR:

As far as this criterion of the performance is concerned, the public sector seems to have done exceedingly well. It has contributed to as significant extent in improving the overall employment situation in the country and has acted as a model employer by providing the works with better wages and other facilities as compared to the private sector. The number of persons employed in the central public sector enterprises is more with respect to all categories. The industrial sectors which have a sizable number of employees in the public sector include coal, steel, textiles, heavy engineering, and medium and light engineering.

The public sector enterprises have also spent a considerable amount on the development of townships around them. These townships were provided with facilities like schools, hospitals, shopping complexes, etc. a substantial sum of money is spent annually on the maintenance and administration of these townships and social overheads. They spent lot of money on township maintenance, administration and social overheads. The employees of the public sector enterprises also enjoy medical amenities, subsidised canteen facilitates, transport and educational facilities, etc.

6.1. It impacts on various dimensions as per as industrial relations concerned.

1 It changes ownership, which may bring out changes not only in work organization and employment but also in trade union dynamics.
2 It changes the work organization by necessitating retaining and redeployment.
3 It affects the right of workers and trade unions, including job security, union security, income security, social security.

6.2. Emerging dynamics:

Earlier industrial relations were mainly concerned with trade unions but now consumers and the community are also a part of it. When the rights of consumers' community are affected, the rights of workers and unions take a back seat. Hence there is ban on bandh and restrictions even on protests and dharnas. Increasingly trade unions are getting isolated and see a future for them only by aligning themselves with the interests of the wider society.

6.3. Declining trade unions role:

Fear of job security, concern about the futility of strikes, and concern to survive their organisation for their income survival. Trade unions have become defensive evident from the act that there is significant shift from strikes to law suits. Instead of pressing for higher wages and improved benefits, trade unions are pressing for maintenance of existing benefits and protection and claims over non-payment of agreed wages and benefits.

7. DREDGING CORPORATION OF INDIA IN VISAKHAPATNAM- A CASE:

The DCIL, a mini navaratna company is attending to all the dredging needs of the Indian ports and also bagging several international dredging works. The company was established in 1976 and at present the Government of India share is 73.47 percent. The DCIL is the only listed company having its corporate office in Visakhapatnam and having 46,000 shareholders. The present share price in the market is about Rs. 625 per share of face value of Rs.10 each. The government has decided to sell its 51 per cent stake, taking the existing pattern of shareholding in the strategic PSU. With this decision almost losing more than half of stake in a strategic PSU, there would be adverse implications in future. The net worth of the company was Rs 1,500 crore and the total fixed assets around Rs 1,900 crore net. Any strategic sale to a single party may jeopardise the interests of the Indian ports. In view of the Dredging Institute at Antervedi under Sagarmala project for Andhra Pradesh for which a MoU is already signed and Sagaramala project connectivity of inland water ways, the DCI should be continued in the public sector only.

The Government of India has disinvested in four installments in DCI till now: 1991-92 – 1.44%, 2003-04 – 20%, 2015-16 – 5% and 2016-17 – 0.09% (Employees). The present holding of government share is now 73.47%. The government decided to upgrading technology, improving capability, infusing capital to buy necessary dredgers/equipment, and instilling experienced professional management to optimise operations of the DCI through 100% (73.47% govt. share) disinvested in DCI. The Centre has set a target of Rs 72,500 crore to be generated through divestment for 2017-18. Out of this, Rs 15,000 crore has to come from strategic disinvestment. Disinvestment of DCI is a part of the Rs 15,000 crore bracket which would fetch the government approximately Rs 1,400 crore.

The employees are not ready to accept any middle path and have ruled out "talks for negotiation". The organisation's privatisation includes privatisation of its man-power. "But this is an expertise area… Dredging is not available everywhere. This is not any general service or financial service… This is dredging service which is a very rare field… Not everybody can do it. With regard to security of the nation, Naval establishments are placed at DCI where private players cannot enter. DCI also has facility for Differential Global Positioning System (DGPS)… With privatisation, everything will be at stake".

The company has 474 full-time employees, 1,035 contract workers and 332 trainees at present. It has a paid-up capital of Rs 28 crore and has about 46,000 shareholders. There was no need to disinvest the government stakes. Since its inception, the DCIL playing vital role in the strategic and infrastructure sector of the dredging by providing dredging services to all major ports and Indian Navy. As on today with a fleet of 17 dredgers of various types and achieved stood in the top 10 ranks amongst companies across the world. Outright sale, which is causing agony amongst the employees who have toiled for the past 40 years to help grow this company.The employees, who now face an uncertain future as they "might be asked to take up voluntary retirement" option, are "against any stake sale".

8. REMEDIES FOR DISINVESTMENT:

Trade unions, management and government are responding to these challenges through various types of new, innovative, or model arrangements to deal with different aspects of disinvestment like making workers the owners through issue of shares or controlling interests, negotiating higher compensation for voluntary separations, safeguarding existing benefits, setting up further employment generating programs, and proposals for setting up new safety nets that not only include unemployment insurance but also skills provisions for redundant workers.

9. CONCLUSION:

Disinvestment is a process. We can learn from experience. We can modify the modalities as we go along. It seems that there is no way of retreating from disinvestment. It has come to stay in Indian economy. Two points should be noted in connection with the disinvestment policy. First, some restructuring of PSUs may be needed before disinvestment to enhance the value of shares and increase sale proceeds. The three broad areas of restructuring would be corporate governance, financial restructuring and business and technological restricting. Secondly, the process of disinvestment has to take into account the conditions in the capital market. Disinvestment should not result in "crowding out" resources available for the private sector. The Government should take further steps to reduce the ill effects of disinvestment.

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