

# Performance of Public Sector Enterprises in Kerala: An Analysis

<sup>1</sup>N.V. Sunil Raj & <sup>2</sup>Dr. R. Vasanthagopal

<sup>1</sup>Assistant Professor, Department of Commerce, Government College, Attingal, Thiruvananthapuram, Kerala (India)

<sup>2</sup>Assistant Professor of Commerce, School of Distance Education, University of Kerala, Thiruvananthapuram, Kerala (India)

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## ARTICLE DETAILS

### Article History

Published Online: 05 July 2018

### Keywords

Performance evaluation, profitability, public sector enterprises, restructuring, turnover and value of production

### \*Corresponding Author

Email: [vasanthagopalr\[at\]yahoo.com](mailto:vasanthagopalr[at]yahoo.com)

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## ABSTRACT

Public sector enterprises have a predominant role in the development of the economies of every country. As the performance of public sector enterprises, both financially and physically, have been mixed and varied, a lot of commendable discussion, criticism and controversy have been happening in connection with these enterprises. This article focuses on assessing the performance of public sector enterprises in Kerala. The data published by the Bureau of Public Enterprises during 2008-17 are the base for the study. The inconsistency in the performance of the public sector enterprises in Kerala shows a mammoth scope for their improvement. Carefully evaluating the performance and taking appropriate corrective measures on time are needed for the betterment of these enterprises.

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## 1. Introduction

Public enterprise is an enterprise in public when the State or any other national, regional or local authority holds at least 50% of its capital; it is under state control and reports to the State; and its objectives are of a public or multidimensional nature (Dietrich Carstern Burning, 1983). Public sector enterprises (PSEs) are playing an important role in the development of the economies of every country. An economy to get transformed from a purely agrarian to a major industrialized one cannot be possible without giving proper emphasis and significance to the enterprises in the public sector. Further, the existence and functioning of the PSEs have to be ensured as it is only through these enterprises planned and balanced economic development is possible. So also, the PSEs are the major providers of employment and carrier public utility services. Thus, the survival of PSEs is the need of the hour and the government has to take necessary steps for a turnaround in the case of inefficient units.

The problems in the public sector started with time and cost overruns in their projects. Inefficiency was there at the operational stage of the project. Losing the economic viability of the entity as a result of underutilization of capacities and shortages in production has become one among the most devastating drawbacks of most of the PSEs. It remains a fact that better productivity and profitability was there in the early years for these enterprises, but the mismanagement and inefficiency to use the surplus for new technologies and innovations gave most of the enterprises the status of loss-making enterprises.

As of March 31, 2017, India accounts for 331 Central PSEs (74 yet to start commercial production) classified under the category of Maharthana, Navarathna, Minirathna category-1, and Minirathna category-2. The state of Kerala credits for the highest number of State-owned PSEs in India. As of March 31, 2017, Kerala accounts for 128 enterprises consisting of 124 government companies and 4 statutory corporations. Among the 124 public enterprises, 109 are functioning and 15 are not functioning. Among the 109 government companies, 40 PSEs works under industries department and comes under

manufacturing sector and are classified under different sectors, namely engineering, chemical, textiles, electrical, electronics, infrastructure, ceramics, and agro and wood-based sectors. The 40 PSEs exclude KINFRA, a statutory corporation and TEXFED, an apex body of textile companies under the Co-operative Sector (Economic Review, 2017).

The majority of the PSUs in Kerala are facing a lot of criticisms in respect of their operations. In spite of the importance of these enterprises in bringing economic development, they are in the midst of a series of challenges which lack an easy solution. The Committee on Public Undertakings, Lok Sabha in their report on Planning, Management and Administration of Kerala State Government Companies (1966) has observed that the Board of Directors, apart from its role of advising and guiding the affairs of the enterprise, must be able to initiate, decide and supervise the operations of the enterprises in the public sector. Besides, merely safeguarding the interests of the Government, they should play a lead role in the operations of the enterprise considering its commercial characteristics.

## 2. Results and Discussion

The present study assesses the performance of the 40 PSEs in the manufacturing sector functioning under the department of industries, the government of Kerala. The data relating to the change in the number of units, the value of production, turnover, and profit/loss during 2008-17 published by the Bureau of Public Enterprises, Government of Kerala are used for the assessment. For data analysis, apart from average, percentage and CAGR, the regression model is also used for projecting the trend for the variables such as turnover and net profit or loss.

### 2.1. Number of Units

Under the department of industries, the government of Kerala, 40 PSEs were functioning in 2016-17 (Table 1). But, the number of enterprises varies between 37 and 44 during 2008-2017. During 2016-17, 13 PSEs registered profits as against 10

during 2015-16. But the total number of loss-making PSEs decreased to 27 during 2016-17 from 30 during 2014-15 and also the combined loss incurred by the loss-making PSEs decreased to Rs. 180.5 crore during 2016-17 against Rs. 241.19 crore during 2014-15.

## 2.2. Value of Production

The value of production of the PSEs in Kerala is showing a varying trend during 2008-2017. The value of production during 2007-08 was Rs. 1560.61. It rose to Rs. 3008.89 during 2015-16. But, during 2016-17 the production decreased to Rs. 2421.2 crore. Meanwhile, the CAGR of the value of production during the period of study is 4.49 (Table 1). However, the time series chart shows that the rate of growth of production of all the PSEs in Kerala is growing linearly at the rate of 133.7 annually. The regression model used to project the trend  $y=133.3x+1729$  gives a significant R<sup>2</sup> value of 0.574. This means that the annual production of PSEs in Kerala is increasing with a positive linear trend.

## 2.3. Turn Over

Similar to the production, the turnover of the PSEs in Kerala is also depicting a varying trend during 2008-2017. In 2008, the turnover was Rs.1637.53 crore. It rose to Rs. 2958.06 crore in 2012. But, the turnover came down to Rs. 2770.5 crore in 2017 (Table 1). The CAGR during the period is 5.40. However, the time series chart shows that the rate of growth of turnover of all the PSEs in Kerala is growing linearly at the rate of 138.7 annually. The regression model used to project the trend  $y=138.7x+1796$  gives a significant R<sup>2</sup> value of 0.713. This means that the annual turnover of PSEs in Kerala is increasing with a positive linear trend.

## 2.4. Profit/Loss

Similar to the value of production and turnover, the profit/loss of the PSEs in Kerala is varying significantly during 2008-2017. Though showing a varying trend, the PSEs reported profits up to 2012-13. But, from a profit of Rs.91.09 crore during 2012-13, they suffered a loss of Rs.38.81 crore during 2013-14. During 2016-17, the reported loss was Rs. Rs.80.7 crore (Table 1). The time series chart also shows that the net profit of all the PSEs in Kerala is decreasing linearly at the rate of 35.90 annually. The regression model used to project the trend  $y=138.7x+1796$  gives a significant R<sup>2</sup> value of 0.713. This means that the profit of PSEs in Kerala is decreasing with a negative linear trend.

## 2.5. Profit Making and Loss-Making Units

A comparison between the profit-making and loss-making PSEs in Kerala in terms of the rate of profit/loss is also done as part of the study. The analysis done through the time series chart depicts that the annual net profit of all the profit-making PSEs is decreasing linearly at the rate of 14.39 annually. The regression model used to project the trend  $y=14.39x +252.5$  gives a significant R<sup>2</sup> value of 0.320. This means that the trend of profits of the profit-making PSEs is slightly decreasing with a negative linear trend. In the meantime, the annual net loss of all the loss-making PSEs is growing linearly at the rate of 21.51 annually. The regression model to used project the trend  $y=21.5x + 1.576$  gives a significant R<sup>2</sup> value of 0.796. This means that the trend of net loss of the loss-making PSEs is showing a small increase with a positive linear trend.

Table-1  
Performances of Public Sector Enterprises in Kerala

Year	No. of Units	Value of Production (Rs.in crore)	Turnover (Rs.in crore)	Profits/Loss (Rs.in crore)
2007-08	42	1560.61	1637.53	89.54
2008-09	37	1769.96	1932.84	127.47
2009-10	44	2014.83	2065.42	224.66
2010-11	44	2298.41	2570.68	175.53
2011-12	44	2925.15	2958.06	222.94
2012-13	44	2851.55	2759.95	91.09
2013-14	44	2942.94	2962.05	-38.81
2014-15	44	3008.89	2987.58	-166.69
2015-16	43	2829.72	2948.27	-109.8
2016-17	40	2421.2	2770.5	-80.7
<b>CAGR</b>		<b>4.49</b>	<b>5.40</b>	<b>-</b>

Source: Review of Public Enterprises (Various issues).

## 3. Conclusion

To sum up, even though most of the PSEs in Kerala are in the midst of an utmost crisis in terms of increase in the amount of production, turnover and profit the turnaround can be seen in many of the enterprises. There is an increase in the number of profit-making units so also shows a declining trend in the

amount of loss incurred by the loss-making units. As the existence of PSEs is a necessity for the growth and development of the economy of a state, the management and all the other stakeholders have to instigate maximum possible effort for enabling these enterprises to accomplish its ultimate

aim -efficiency along with the social objective of growth with equitable distribution. Restructuring and reformulation of these enterprises, professional management, and capacity

enhancement through innovative technology will provide a good deal of revenues to the government and make PSEs socially and economically viable entities in the true sense of the term.

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