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# Restructuring of public sector units

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**Abstract**
The Public Sector Units (PSUs) have made tremendous contributions to the development of the country at a time when the private sector was almost in infancy. In the last two decades, private sector units have tried to march forward and they are getting success in their operations. In India, Introduction of Liberalisation, Privatisation and Globalisation (LPG) has given private sector units a broader framework for their operations.

**Keywords:** PSUs, restructuring, enterprises, liberalisation, privatisation and globalisation

## Introduction

Public sector, in the past, had been considered as one of the major instruments of state invention in economic activity, in the development process of a developing country. It used to be an effective instrument to regulate the pace and composition of private economic activity in a mixed economy. The objective was to achieve efficiency along with the social objective of the growth with equitable distribution by setting some of the "core" economic activity in the public sector. Investment in utility or infrastructure sector was not considered attractive to the private sector in resource-scarce developing economy during the initial years of planned development and so, the public sector was to take the lead. Similar reasons also guided investment in capital goods industries and other segments of the economy. The public sector was also intended to be a model employer whose employment and wage policies were to have a moderating influence on the corresponding policies in the private sector. These objectives guided the planners to import-substitution and other related policy formulations.

### Who is affected by the public sector restructuring?

Restructuring is widespread in the public sector. Some restructuring is mandated by legislation, such as school board mergers and the creation of the new City of Toronto. Other restructuring is mandated by Ministry programming changes, such as hospitals, municipalities other than Toronto, and Community Care Access Centres.

The Public Sector Labour Relations Transitions Act, 1997 (Bill 136) defines those employers affected by public sector restructuring as belonging to the following sectors:-

- Municipal sector,
- New City of Toronto,
- New Toronto Hydro Electric Commission,
- School sector,
- Hospital sector,
- Some other amalgamations

For pay equity purposes, public sector restructuring may involve the sale of business provision in section 13.1 of the Pay Equity Act. Any merger or dissolution described by Bill 136 is designated as a "sale of business" under the Pay Equity Act. The date of the "sale" under the Pay Equity Act is designated as the "changeover date" as defined by Bill 136. Mergers or dissolutions not covered by Bill 136 may also fall under the definition of a "sale of business" under the Pay Equity Act.

The sale of business provisions in the Pay Equity Act set out pay equity obligations following a "sale" and establish a process for meeting these obligations. Bill 136 refers to "predecessor" and "successor" employers, which are then designated as "sellers" and "purchasers" under the Pay Equity Act.

We will use the terms "sale of business," "seller" and "purchaser" in this Fact Sheet.

Restructuring is the corporate management term for the act of partially dismantling or otherwise reorganizing a company for the purpose of making it more efficient and therefore more profitable. It generally involves selling off portions of the company and making severe staff reductions.

Restructuring is often done as part of a bankruptcy or of a takeover by another firm, particularly a leveraged buyout by a private equity firm. It may also be done by a new CEO hired specifically to make the difficult and controversial decisions required to save or reposition the company.

**Characteristics**

The selling-off of portions of the company, such as a division that is no longer profitable or which has distracted management from its core business, can greatly improve the company's balance sheet. Staff reductions are often accomplished partly through the selling or closing of unprofitable portions of the company and partly by consolidating or outsourcing parts of the company that perform redundant functions (such as payroll, human resources, and training) left over from old acquisitions that were never fully integrated into the parent organization. Other characteristics of restructuring can include:

1. Changes in corporate management
2. Retention of corporate management sometimes "stay bonus" payments or equity grants
3. Sale of underutilized assets, such as patents or brands
4. Outsourcing of operations such as payroll and technical support to a more efficient third party
5. Moving of operations such as manufacturing to lower-cost locations
6. Reorganization of functions such as sales, marketing, and distribution
7. Renegotiation of labor contracts to reduce overhead
8. Refinancing of corporate debt to reduce interest payments
9. A major public relations campaign to reposition the company with consumers
10. Forfeiture of all or part of the ownership share by pre restructuring stock holders

**Enterprise restructuring is enterprises adapting to a new environment**

The economic environment for enterprises in the FSU has changed significantly over the past several years. The breakup of the Soviet Union has led to a new set of currencies, national borders, and regulations. Supply links between enterprises, formerly coordinated by Moscow-based branch ministries, are now organized in a wide variety of ways. State financing, formerly all-important, is now often no longer sufficient or sustainable. Interactions with world markets, once subject to strict administrative control, now represent a much bigger opportunity and threat. Prices and exchange rates, once fixed irrespective of economic fundamentals, now openly reflect the effect of various economic policies.

Enterprises in the FSU need to adapt to these new economic conditions. Such change, initiated at the level of individual persons and organizations, presents a particular challenge for societies bearing a communist legacy. Visions of grand changes in human nature and in the economic environment relieved individuals of agency and responsibility. The implications for enterprise restructuring today is that traditional ways of thinking encourage workers and managers to look to others to resolve their problems or to "normalize" the economic environment. Thus enterprises often seek to continue operating in the usual way despite dramatic falls in industrial productivity and unsustainable distortions in industrial structure.

While changes in economic conditions in the FSU have been dramatic, enterprise restructuring is not just a feature of post-socialist transition. Enterprise restructuring is a fundamental, continuing process in market economies. Recent examples of enterprise restructuring in developed market economies include:

- The self-division of British Gas
- The creation of a new division in General Motors
- The divestiture of Folker Aircraft from Diamler-Benz
- The merger of Lockheed Aerospace and Martin Marietta

Enterprise restructuring in the FSU can take many different forms. Some forms of enterprise restructuring promote sustainable and efficient economic development, while other forms represent ways to resist change or to insulate the enterprise from economic challenges. Without detailed, specific information it is difficult to judge the implications of a particular form of change. For example, laying off workers may reflect a reactive reduction in scale of operations, while preserving employment levels may represent an effective internal reorganization of work. Similarly, Soviet firms traditionally invested heavily, and inefficiently. On the other hand, new investment in needed for major restructuring, and in an environment with market-driven capital allocation, receiving such investment indicates capital market confidence in restructuring plans.

The most important aspect of enterprise restructuring is not specific initiatives but creating the capacity for continual and efficient change. Managers of enterprises around the world recognize that technological change and international competition are shortening product cycles and producing a faster changing economic environment. Such an environment increases the importance of learning and adaption, and well as the values of cooperation, trust, and mutuality that make continual change possible and efficient.

**Restructuring of PSUS: An Alternative Approach**

In recent weeks there has been a series of articles in the national press, commenting on the government of West Bengal's current attempts to restructure some of the public sector units in the state. Several of these articles, including one written by the minister for disinvestment of the central government, Arun Shourie, accuse the Left parties of hypocrisy and dualism in their approach to privatisation. The allegation is that while the Left parties have vehemently been criticising the approach to privatisation taken by the central government and by some state governments such as those in Andhra Pradesh and Orissa, they are trying to do more or less the same thing in West Bengal.

Before going to analyse the policy of Public Sector Restructuring in West Bengal, it has to be recognized that the state government has to function in an economic milieu that is not of its own choosing, but one that is determined by policies at the national level. No state government can implement a policy that is a radical socio-economic alternative to the path of development that is presently being imposed by the central government on the people. The neo-liberal policies of liberalization and privatization which the left parties have been resisting at the centre, have further contributed to macro-economic condition that have greatly increased the difficulties of the state governments to undertake positive economic strategies.

In view of the above, the facts that have forced the state government to undertake such exercises should be appreciated in their proper perspective. Year after year, state government has bailed out these PSUS by infusing fresh capital, loans, and subsidies. Reports of the CAG reveal that the functional among these PSUs have absorbed an investment of Rs 18,241 crore as on March 31, 2001.

**Conclusion**

It is no longer possible for the government to continue with commitment of resources of this magnitude in respect of its PSUs in view of the competing demand for investments in the social and infrastructure sectors. In this context, the government has decided that its loss-making undertakings will require to be restructured to function along principles of self-sufficiency through achieving viability in their respective operations, thereby ending their dependence on budgetary resources of the government. Admittedly, the West Bengal government, like a number of other state governments, has been experiencing very severe fiscal problems. It must be appreciated that the current fiscal pressures on the state government result from the liberalization policies of the central government, which have had various effects including reduced ability to increase tax revenues, and other additional claims of spending.

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