

The Importance of the Public Sector

SHRMPSE Meet

Taj Delhi

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Structure

- **History of Public Sector Enterprises**
- **Benefits and Challenges of Public Sector Enterprises**
- **How have PSEs done on the Indian stock exchange?**
- **Mindset and Costs are the difference**
- **A few highlights from the SHRM PSE Report**

History of government companies

- **Origins (16th-18th C):** Mercantilism - Governments control key industries (e.g., **Dutch East India Company**).
- **20th Century Rise:**
 - **Industrialization:** Governments invest in infrastructure & heavy industries (e.g., railroads, steel).
 - **Ideology:** Socialist/Communist ideas promote state ownership for social good (e.g., Soviet Union).
 - **Decolonization:** Newly independent countries gain control of resources (e.g., many African nations).
- **Reasons for Government Involvement:**
 - **Strategic Industries:** Control vital sectors like defense or energy.
 - **Market Failures:** Ensure essential services when private sector lacks incentive.
 - **Social Objectives:** Provide affordable services or employment opportunities

History of government companies

China: China has a large number of **State-Owned Enterprises (SOEs)** across various sectors. This stems from a combination of factors:

Ideology: China's historical communist ideology emphasized state control of key industries.

Strategic Development: SOEs played a crucial role in China's rapid economic growth, allowing the government to direct resources towards specific goals.

Norway: Norway has a significant public sector, including ownership of oil and gas companies. This is driven by:

Resource Management: Government control allows for better management of these strategic resources for national benefit.

Sovereign Wealth Fund: Profits from these companies contribute to a massive sovereign wealth fund that benefits the nation.

History of government companies

Singapore: Singapore has a mixed economy with a strong government presence.

Here's why:

Economic Development: **Government-linked companies (GLCs)** played a key role in Singapore's economic development by investing in strategic sectors.

Social Objectives: Some GLCs provide essential services or promote social goals alongside commercial activities.

India: India has a large number of **Public Sector Undertakings (PSUs)** in various industries. The reasons include:

Post-Independence Development: The government established PSUs to address critical needs and promote industrialization after independence.

Strategic Sectors: PSUs play a role in essential areas like power, transportation, and banking.

Each had a nation building agenda



As of 2021, there were

13 Maharatnas, Revenue > 25,000 crs, net worth > 15,000 cr and net profit > 5000 crs

14 Navratnas, autonomy to invest upto 1000 crs without approval

72 Miniratnas, > 30 crs pre tax profit

Power, oil & gas and defense are the key sectors covered by the top 10 PSUs in India

Company name	Industry	F.F. Mkt Cap (Rs cr)
NTPC	Power Generation/Distribution	350,776.9
ONGC	Oil Exploration and Production	334,258
Coal India	Coal	280,773
Power Grid Corp	Power Generation/Distribution	255,999
IOC	Refineries	240,272
Bharat Electricals	Aerospace & Defense	170,683
Power Finance	Finance Term Lending	132,994
GAIL	Gas Distribution	132,225
BPCL	Refineries	130,415
REC	Finance Term Lending	115,664

Public Sector

Benefits

- **Economic development**
- **Public Finance**
- **Infrastructure**
- **Import Substitution**
- **Essential services**
- **Job creation**
- **Balance to the pvt sector**

Challenges

- **Talent**
- **Financial Ratios**
- **Investment delays**
- **Manpower cost**
- **Tenure**
- **Responsiveness**

India has about 50 million people employed in the public sector, about 65 % with states, about 25 % with the Central govt , 5 % each with PSUs and PSU banks

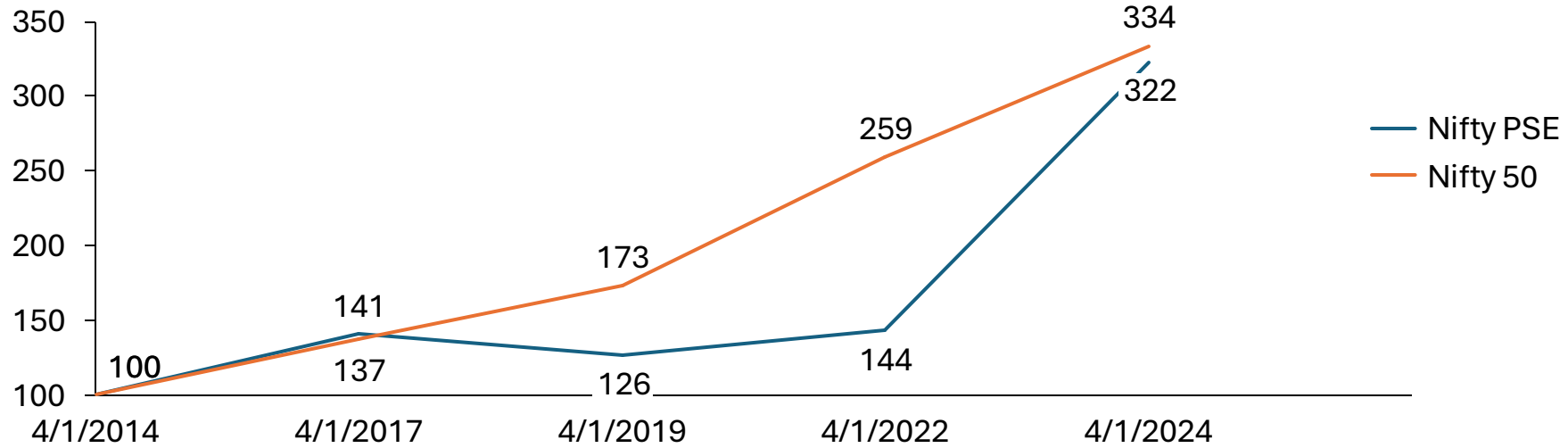
Quiz Question - Nifty 50 vs PSE Index

How many of you feel Nifty 50 >>> PSE Index

How many of you feel PSE index >>> Nifty 50

How many of you feel both gave same return?

Nifty PSE lagged Nifty 50 from 2014 -22 but significantly outperformed from 2022 - 24 to give similar returns in the last 10 years



Index	1/4/2014	1/4/2019	1/4/2024	5 year CAGR %	10 year CAGR %
Nifty PSE	2854.1	3603.4	9203.4	20.6%	12.4%
Nifty 50	6729.5	11665.2	22455	14.0%	12.8%

We always discuss culture as public sector type thinking or private sector type thinking.



**Private sector
company**

**Loyalty to boss
Bloated costs
No accountability
Lack of Innovation
Not Invented Here
Yes SIR Culture**

**Initiative
Consumer focus
Do what's right for the company
Collaborate
Agility/speed
Learning**

**Public Sector
company**

**Seniority
Low Risk
Don't rock the boat
Time bound promotion
Can't be done
Yes MAN Culture**

**Costs under control
Think customer first
Exposure to outside world
Work within constraints
Use non salary/non time methods to
incentivize**

Public Sector thinking

Private sector thinking

Various major economies have been privatizing PSEs for the last 30-40 years

- ❖ **United Kingdom** – Initiated large-scale privatization starting in the 1980s under PM Margaret Thatcher ; major industries privatized include telecommunications, energy, and transportation
- ❖ **Russia** - Since the 1990s, Russia has privatized a large number of its state-owned enterprises, including major companies in energy and mining
- ❖ **Italy** - Italy has privatized numerous PSUs, particularly in telecom, energy, and industrial sectors, as part of efforts to cut public debt and improve efficiencies
- ❖ **France** - has seen several waves of privatization, including major companies in the banking, automotive, and telecommunications sectors
- ❖ **India** - India has a long history of privatization dating back to the 1990s. Focus sectors of privatization include aviation, banking, and energy. The privatization of Air India is a recent example.

'By the mid-1980s, around the globe, the pendulum of political option was swinging decisively towards the view that the proportion of the GNP due to Government economic activity should be reduced to the extent possible' – Bombay Stock Exchange

What does the SHRM PSE report say ...

- 1. Need for modern trading methods to build future capability**
- 2. Women in PSUs want more support from leaders and company**
- 3. Employees want more investment in AI**
- 4. Invest more in Middle managers**
- 5. Need 2 to 3 well being initiatives per year**
- 6. More inclusion needed**

Thank You for being here today.