

CHAPTER I

INTRODUCTION

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INTRODUCTION

1. The Public Sector Enterprises (PSE) in India has been functional in major infrastructure & core sector areas. The PSEs have contributed towards economic growth & are listed among the best in terms of market capitalisation, sales, profitability & development projects. However, with advent of globalisation & liberalisation the PSEs are required to adopt best methods & techniques for achieving growth & successful execution of projects. For the purpose, adoption of best financial management and benchmarking of operations through analysis and corrections is most essential.
2. The said dissertation aims to study the performance of select PSEs in the country and evaluate their achievements & drawbacks in terms of financial administration through intra & inter organisational and sector-wise comparisons to synthesise need for better financial administration.
3. The study aims to define relationship between financial variables like expenses, revenues, liabilities and assets and their analysis for highlighting the respective areas of good performance and of concern which require due streamlining in order to ensure their position and adjustment to the changing global environment. The study aims to highlight importance of various factors in information systems for strategic decision making by the highest management / administration.

OBJECTIVES

1. The basic objective of the dissertation is to reach conclusions with regard to definition of financial parameters and benchmarking of operations/ results of PSEs in order to have greater control over financial management as a tool towards organisational growth & contribution of the sector in economic development of the country.
2. It aims to provide solutions to financial problems facing certain PSEs (e.g., Air India) through comparative analysis of financial variables contributing to the economic health of said organisations.
3. The study aims to define specific benefits to various stakeholders including the government administrators, shareholders, banking institutions, employees of the PSEs and general citizens of the country (for maximised valuation of the organisations).
4. In addition, the study aims to correlate the financial management and analysis with accounting and reporting in the Government administration & need for linkage of the corporate accounting with government financial administration.
5. Professional understanding of the subject has been aimed at, by the undersigned, with the objective to contribute towards growth of financial & accounting administration of national assets and entities, thus adding to body of knowledge of Finance.

RATIONALE

1. The mechanism of financial analysis of performance has been chosen for purpose of Inter-Sector review so that specific inputs/ data/ information base, which is the result of past decisions taken by the respective management(s) of the PSEs could form basis for future planning.
2. Financial analysis, as the basis for better financial administration, is adopted as the mechanism for evaluation of performance, by various stake-holders including,
 - a) Ministries/ Departments – for finalisation of targets to the respective entities.
 - b) Organisational Management – for evaluating internal performance.
 - c) Financial & Banking Institutions – for purpose of funding projects of the organisations.
 - d) Capital & debt market participants.
 - e) Reserve Bank of India - to correlate sectoral performance with national economic growth parameters.
 - f) Planning Commission – for determining future plans.
3. However, it is generally found that the financial analysis is restricted either to intra-study (trend-analysis of n-no. of years performance of the organisation) or intra-study of a sector. The given study aims to have inter-sector study by choosing some major PSEs and arriving at good financial management practices to achieve greater economic progress & overcome their limitations.

RESEARCH QUESTIONS

1. Does the Inter-Sector analysis of performance highlight the areas of strengths & weaknesses of the selected PSEs, which if addressed professionally, could maximise their valuation in the future ?
2. Can financial reporting model of PSEs serve as basis for accounting information systems, disclosures & reforms in the Government accounting?
3. Does the analysis provide information tools to various stakeholders to quantitatively evaluate performance of management/ administration of their respective organisations?

DE-LIMITATIONS & LIMITATIONS

1. The dissertation study has covered chosen core sectors of the economy where the selected PSEs have major presence in terms of contribution and growth.
2. The given study is based upon audited annual reports of the selected PSEs for the year(s) under consideration.
3. The study has covered only those organisations which prepare their annual accounts based upon statutory accounting procedures as accepted for corporate reporting.
4. The given study has not covered the organisations which do not share their annual performance reports on the public domain due to various reasons of confidentiality.
5. The study has aimed to cover organisations listed on capital markets (all except Air India) with a view to analyse implications of capital-structure financing on administration of the entities.
6. According to the given parameters, the core sectors of Petroleum & Natural Gas, Power, Coal, Steel & Civil Aviation have been selected for the study.

LITERATURE REVIEW

1. Annual Reports of selected PSEs & internal administration analysis of the organisation (year-wise comparison of performance).
2. International Public Sector Accounting Standards (IPSAS) guidelines for financial reporting, presentation & analysis.
3. Government Accounting Standards Advisory Board (GASAB) (under C&AG) reports on financial accounting reforms, as implemented in bottoms-up approach (beginning with third tier of government administration, i.e., local municipal authorities).
4. Financial analysis reports of National Stock Exchange (NSE) & Regional Stock Exchanges (RSEs) w.r.t. performance of listed shares of corporate entities.

METHODS & PROCEDURES

1. The analysis is based upon Secondary Data Source(s) of financial information disclosed by concerned PSEs & local municipal authorities submitted through their Annual Reports. In addition reports & analysis of economic agencies, ministries, central bank & stock exchange have been examined for sector parameters.
2. Besides on-the-field analysis has been done for local municipal authorities through interaction with the concerned municipal officials during field visits to Trivandrum, Kerala, as part of the urban study module.
3. In addition, inputs were also taken on the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGA) during the rural study visit to Shillong, Meghalaya. The accounts of the scheme, as available in cash-based accounting system of the government were also studied and analysed in addition to primary data inputs from officials of the State Government.
4. The study has been conducted through **use of Information Technology tools**, under which an exclusive macro-based computer programme has been prepared by the undersigned, which is summarised as follows :-

- a) Digitization of 'As-Is' financial information provided by the corporate entities in their Financial Statements under the Annual Reports of the Board of Directors.
- b) Appending the said information under a standardized computer programme based upon expenditure-revenue-assets-liabilities heads which provides intra-inter sector-industry wise information in comparable form.
- c) Summarization of the above detailed head-wise information into groups, e.g., direct-indirect costs, operating-non operating revenue etc.
- d) Financial analysis & ratios' calculation from the summarized information based upon principles of financial management & decision-making for top management.
- e) Correlation analysis & interpretation of results from the ratios in terms of profitability, liquidity, solvency, value addition & turnover quotient as required for strategy formulation & long term sustainability of operations.
- f) Presentation of analysis through use of tables & graphics.
- g) Provision of solutions & road-map to bridge the weak links & strengthen the positive points of the organisations studied.

Based upon the said macro programme, the financial health of any organisation, irrespective of size, nature of operations, industry & sector could be provided immediately.