

Privatisation of Service Sector in India - A SWOT Analysis

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Abstract— Privatisation of service sector has been beneficial to the Indian economy. In the recent years, many service sectors have been privatised. Privatisation has significantly improved production and services. Privatisation is a major component of development. Privatisation of service sectors is a significant part of many developed countries. India needs a large amount of investments in the service sectors for rapid development. Even though privatisation has many disadvantages, these weaknesses can be overlooked to fulfill the significant lack of funds in the service sectors.

Key words: Privatisation, Service Sectors, SWOT Analysis, Divestment, PSU-Public Sector Undertakings

I. INTRODUCTION

Privatisation can be described as the transfer of state-owned enterprises to private owners. It also means the total withdrawal or partial withdrawal of the state from a sector or business. Privatisation is opening up an industry that had been reserved for the public sector to the private sector. Privatisation has now become a standard economic policy around the world. Privatisation reduces the financial burden on governments and also strengthens competition. It sector which plays a vital role in economic growth (Prasad, 2006).

But there can be many disadvantages to privatisation. Throughout the years around forty sick companies which were in the private sector has been taken over by public sectors to protect the employees. These sick companies cost the government resources. It proves that privatisation of service sectors can also cost the government resources. Some economics argue that some services sectors like health care, education utilities, and law enforcement should remain in the public sector to ensure more reduces the size of government machinery and leads to rapid economic development within a short period. Several economists have defined privatisation as a method for reallocating assets and functions from the public sector to the private equitable access and enable greater control (Prasad, 2006).

The government of India has chosen a mixed economy in which both public and private sectors are permitted to operate. Privatisation has been proved to be beneficial to the Indian economy. Many service sectors for example railways need privatisation. In India, there is a need of privatisation to improve our economy (Ashraf and Faiz, 2014).

A. Privatisation can be differentiated into three parts

- Delegation: The government might keep hold of the responsibilities, and private enterprises may handle wholly or partly the delivery of product and services.
- Divestment: When the government surrenders the responsibility to the private sectors.
- Displacement: The private enterprises may expand and may gradually displace the government entirely (Huang, 2009).

The advantages of privatisation can be apparent from both microeconomic and macroeconomic impacts. Service sectors contribute to a large section of the Indian economy. The service sector accounts for fifty-seven percent of the gross domestic product (GDP). In the last few years, the service sector of India has become the fastest and largest growing sector. India's service sector consists of a wide variety of activities. It includes transport, storage, health, trade, hospitality, food services, hospitality, social and personal services, real estate, insurance, financing, businesses, IT sector, scientific and technical services, public utility, entertainment, recreational, cultural and community services (Joshi, 2010).

According to experts advantages of privatisation of service sectors are higher flexibility, a higher scope of innovation and cost savings. However, privatisation of social services may result in low employee morale and may generate fear of dislocation or termination in the minds of the employee. In India initially, Privatization was met with a lot of resistance before finally being accepted (Bhoi, 2013).

B. Disinvestment in Public Sector Undertakings

Year	Target (Rs crore)	Achievement (Rs crore)
1991-92	2,500	3,038
1992-93	2,500	1,913
1993-94	3,500	Nil
1994-95	4,000	4,843
1995-96	7,000	168
1996-97	5,000	380
1997-98	4,800	910
1998-99	5,000	5,371
1999-2000	10,000	1,829
2000-01	10,000	1,869
2001-02	12,000	*

Table 1: Disinvestment in Public Sector Undertakings
[Source: White Paper on Disinvestment of Central Public Sector Enterprises (31st July, 2007)]

C. Disinvestment Proceeds during 2001-02

	Name of PSU	Percentage of equity disinvested (percent)	Proceeds realised/ to be realized (Rs.Crore)
1	HTL Limited	74	55

2	CMC Limited	51	152
3	India Tourism Development Corporation-9 Hotels	100 in 8 hotels Long-term lease-cum mgt contract in 1 hotel.	181
4	Hotel Corporation of India Limited-3 hotels**	100	**243
5	IBP Limited	34	1,154
6	Videsh sanchar Nigam Ltd (Transfer of Cash Reserves)***	25	***3,689
7	State Trading Corporation of India Limited (Transfer of Cash Reserves)	-	*40
8	Minerals and etals Trading Corporation of India Ltd (Transfer of Cash Reserves)	-	*60
	Total		5,573

Table 1: Disinvestment Proceeds during 2001-02

The growth of the service sector in India is mainly attributed to the Indian Information Technology sector and the e-commerce industry. India is one of the world's most populated countries and hence it has a large pool of human resource. The government's regular investment in higher education since the independence regarding the establishment of top educational institutes and subsidisation of education has produced a huge number of educated workers capable of performing various skilled and specialised tasks. Having a strong IT sector has helped to develop India's IT industry further. Other areas like medicines, tourism, housing, engineering, the education sector have also contributed to India's growth. Privatisation has intensified this process (Joshi, 2010a).

In this study, we use a SWOT analysis the advantages, threats, opportunities and weakness of privatisation of service sectors in India. SWOT analysis is strategic planning which is used to evaluate the strengths, weaknesses, opportunities and threats involved in a project or business. SWOT analysis involves in specifying the objectives of a project or business venture. It identifies the internal and external conditions of the project, organisation or business to achieve the goals. Strengths can be defined as the attributes of an individual or organisation which are helpful in achieving the objectives set. Weaknesses can be defined as attributes of a person or institution which are harmful in achieving the objective set. Opportunities, on the other hand, are the external conditions that are helpful in achieving the objective set while threats are external conditions that could do damage or stand in the way of achieving the goals (Miller, 2007).

D. Examples of successful privatisations in India

- Lagan Jute Machinery Company Limited (LJMC)
- Videsh Sanchar Nigam Limited (VSNL)
- Hindustan Zinc Limited (HZL)
- Hotel Corporation Limited of India (HCL)
- Bharat Aluminium Company Limited (BALCO)

II. NEED/IMPORTANCE OF THE STUDY

SWOT analysis is carried out to understand the strengths, weaknesses, threats and opportunities of an organisation. Privatisation is a managerial approach that has attracted the attention of governments, politicians, academics, etc. Privatisation refers to the process of transfer of ownership both permanent and long term. It means the transfer state-

(PSU- Public Sector Undertakings) owned or public owned property and services to individuals or groups that intend to use it for private benefits which aim to maximise profits. With this study, we can understand the area of success and weakness of this kind of managerial approach.

III. OBJECTIVES

The objective of this study is to carry out the SWOT analysis of the effects of privatisation of the service sectors in India. This SWOT analysis can help in making policies to accelerated economic growth, and improvement productivity.

IV. RESEARCH METHODOLOGY

SWOT analysis is used to research the success of Privatisation of service sectors in India. Data has been studied from the year from 1991-92 to 2007-08. Various service sectors were studied throughout the years, and a SWOT analysis was carried out. White Paper On Disinvestment Of Central Public Sector Enterprises (31st July, 2007) By The Government Of India, Ministry Of Finance, Department Of Disinvestment Was Referred To As Empirical Data.

A. SWOT Analysis

SWOT analysis of privatisation of service sector in India:

1) Strengths

- Privatisation of service sector reduces the burden on the government.
- It helps the public service sector to modernise and diversify a business or sector.
- Privatisation can help service sectors become more competitive.
- Privatisation contributes to improving the quality of decision making because these decisions are free from any political interference.
- Industrial growth.
- Increase in foreign investments.
- Increase in efficiency.
- Conducive business environment.
- Lower response time and efficient services.
- Lower operational cost.
- Vast human potential.
- Can be the cure to poverty by providing large-scale employment.

- Privatisation increases management of enterprises.
- Increase government treasury.
- Privatization has positive impacts on the financial growth of an organisations and sectors that were previously dominated by the government and is a successful way of decreasing the deficits and debts (Coram and Burnes, 2001).

2) Weaknesses

- Lack of workers welfare.
- Industrial sickness.
- Problems of financing.
- Increase in unemployment.
- Opposition of employees.
- Class struggles.
- Lack of transparency in production processes.
- Unfavourable impacts on economics.
- Minor parts to investors.
- Increase in inequality as lower sections of the societies suffer.
- Privatization usually intensifies price inflation because privatised enterprises do not get government subsidies after the deal is done and the burden of inflation affects the common man.
- Conflict of interest amongst stakeholders and the management.
- Lobbying and bribery are some the common issues we face due to privatisation.
- Profit maximisation programme has encouraged malpractices like the production of lower quality products, price escalation and elevating the hidden indirect costs (Reschreiter, 2008).

3) Opportunities

- India's readiness in privatisation is one of the biggest opportunities.
- Economic problems in India.
- Development of business connection.
- Market potential in India.
- Work in close collaboration with other western countries due to an association (Bath, 2012).

4) Threats

- Reduction of tax income for the state.
- Tax avoidance.
- Concentration of wealth in private hands.
- Exploitation from the part of rich people.
- Increase of prices because of the dismissal to decrease the production costs (Bath, 2012).

V. CONCLUSIONS

The government should provide adequate and efficient infrastructure to support future growth of the service sector. From this study, we understand that privatisation has been beneficial to the Indian economy and the service sectors. But a few service sectors are lagging behind. India needs a greater degree of privatisation of its service sector to enhance economic status. PSUs have majorly contributed to develop the industrial base of India; they also suffer from many inadequacies. A Certain level of government presence should be there to prevent corruption and protect the interests of the employees. Whatever the reasons are against privatisation of service sectors, the need for resources by the

Government of India is very large. Therefore Indian Government has decided to go in for the disinvestment of the public sector enterprises. Privatisation is an overriding process to enhance productivity and competitiveness. It can also be very beneficial in attracting foreign direct investment.

VI. LIMITATION

The study has been confined to the SWOT analysis of the service sectors of India. No comparison is attempted between previous studies conducted. The results from this study cannot be generalised and used for other sectors. The nature of this study is such that no sophisticated statistical tools can be utilised.

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Citations, Quotes & Annotations