Financial Management in PSUs As Major Contributor in Managing Financial Crisis

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ABSTRACT

*One of the key problems facing India is **"FINANCIAL CRISIS"**. The basic principles of financial management apply to the government companies or public sectors undertakings (PSUs)*

In this paper, we discuss: (i) the nature and scope of finance function in PSUs; (ii) discuss the features of investment, financing, working capital and dividend decisions in government companies; (ii) explain the concept of zero base budgeting and performance budgeting to government companies; (iv) examine financial controls and functioning of memorandum of understanding and (v) provide an overview of changing shape of finance function in PSUs. PSUs have come of age, and have to function like other business system.Globalisation of Indian economy necessitates these enterprises to be sound in terms of profibility and earning per share.PSUs have to be self-sustaining organizations, and financial management assumes significance in this context. Working capital management, investment management, financing and capitalization decision in PSUs,dividends decision payment in PSUs,financial controls including internal audit, budgeting and financial reporting system, cost and cost control and zero base budgeting are the ways to manage finance in PSUs.

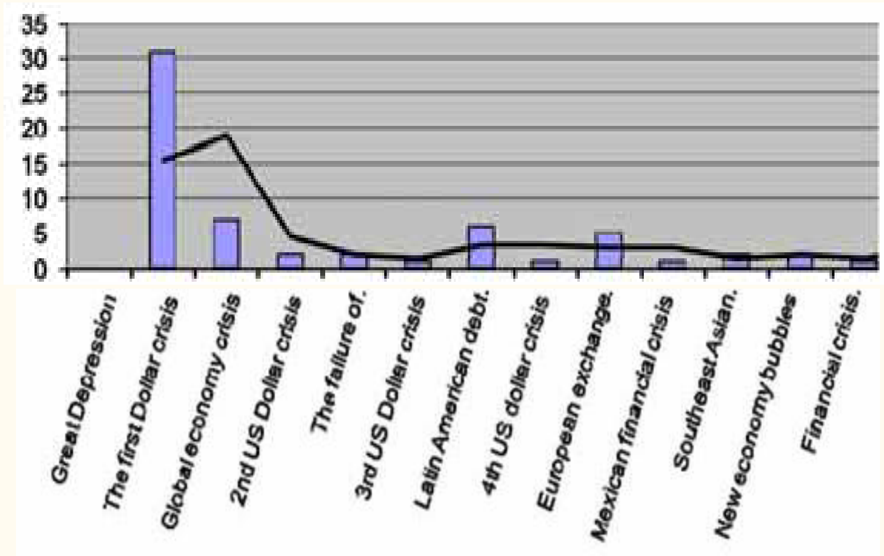
The responsibilities of finance function in PSUs are ;(i) determining the financial resources required to meet the companies operating programme.(ii) developing the best plans to obtain external funds.(iii) carrying out feasibility studies and preparing project reports.(iv) budgeting(v) formulating programmes to provide the most effective profit volume cost relationship. Managing finance in PSUs has resulted into, preparation of long term operating budget, preparation of the annual operating budget, preparation of cash flow statement, advice the management on all service matter having financial implications, ensuring sound finance non finance intertface,assessment of the total working capital requirements for the fiscal year etc.

At last we conclude that, like the private companies the government companies also aim at profitability and value creation, however they also focus much more on non financial and social objectives. It helps in funds management,budgeting,cost control, assets management and security etc.Financial controls in government companies are more stringent in the private sector companies they are subjected to internal audit, statutory audit and audit by controller and auditor general, performance budgeting and zero base budgeting are special budgeting control tools used by government companies.MOUs is performance contract between the government and the company management, it specifies the performance targets as well as explicitly states the autonomy and accountability of management in meeting financial and non financial objectives and targets, the emphasis is only reducing the close control of the government and the day to day- interference in the management of companies.

Key Words: *PSUs, Budgeting, Controlling, Government companies*

Introduction

The world has been witnessing a financial and economic crisis following the sub-prime mortgage in INDIA. While exact reasons are yet to be known at a fundamental level, the crisis could be ascribed to many factors including gross financial irregularities, excessive risk taking, large and persistence global imbalance, which, in turn, is the outcome of long periods of excessively loose monetary policy in the major advanced economies during the early part of last decade. The crisis threatens to undo the economic development achieved by many countries and to erode people's faith in an open international trading system. Over the past decades of globalization, India had grown rapidly till the financial crisis appeared in mid-2007. This acceleration of growth, in which international trade has played an important role, has helped Indian economy make impressive strides in economic development. The globalization process has resulted in an increase in international trade in goods and services in India. Indian economy has become part of growing international production networks through exchange of goods, services and capital. Eventually, India is more integrated with the world economy than it was in 1980s or early 1990s. Today India accounts for over 3 per cent of world trade in goods and services, about 2.8 per cent of world GDP, and 21 per cent of world population, respectively. In supply-constrained economies, promoting exports has always been a challenge particularly at a time when trade has been severely affected by lack of external demand. Developing Asia will continue to suffer from Demand decline in OECD countries, with the China and India being the most impacted. Though South and Southeast Asia face reduced exports to the OECD countries, its exports are reduced Significantly to other Asian exporters, demonstrating the indirect trade linkages that now exist in the global economy. The fall in import demand in advanced economies has led to corresponding fall in exports of India in the crisis period. The short term implications of this declining trend on developing countries like India may presumably cause havoc. At the same time, the export slowdown surely has some long term implications on trade and industrial development in India. The broad objectives of this study are to understand India's emerging trade and industrial development scenario in view of the change in international demand from advanced economies, and the remedies in order to strengthen and enhance the trade and industry in India. The intention is to provide lessons for Indian economy regarding trade and industrial policy responses and implications for regional cooperation.



Figure;1 Growth Rates (Real GDP) in Developed & Developing Countries.

PSU,S have come of age ,and have to function like other business system. They must ensure that they must have an effective bottom line. Globalization of Indian economy necessitates these enterprises to be self-sustaining organization, and financial management assumes significance in this context. Finance objectives constitute the core of overall business objectives of private or public sectors companies. There is a view that PSU, S need not have any fiancé objectives as they are not expected to generate profits since their losses could be made good by the state. However, though these enterprises have chosen to explicitly indicate the financial objectives, they face the dilemma of evolving full-fledged financial objectives. Some PSUs point out stepping up the rate of internal resource generation as their finance objectives. By being "public", these enterprises lend themselves to the ownership and control of the government and management by it. While PSUs having a larger public dimension would lay stress on profitability, those dominated by the enterprise dimension would make efforts to maximize their profitability. Relating the profitability to net worth. PSUs in India can have a scale of financial objectives, from keeping the net worth intact to its maximization of returns on net worth".

Finance function in PSUs

The finance function in PSUs is becoming more and more inclusive. It has gone beyond the traditional boundaries to take cognizance of newly emerging elements such as restructuring and corporate governance. This evolution also underlines the importance of cash flow, growth and cost of capital as the nerve of the finance function in PSUs.

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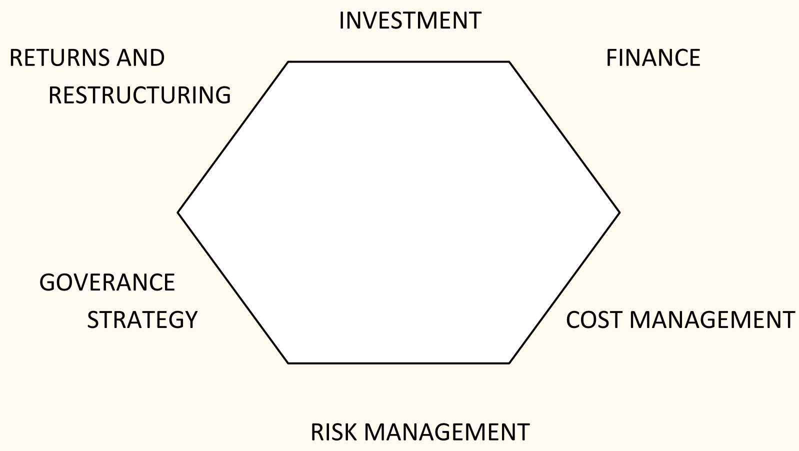
FINANCE FUNCTIONS OF PSUs



The rest of the paper is organized as follows. Section 2 discusses some ways of how PSU,S control and manages financial crisis ,like investment management in PSUs ,working capital management in PSUs, financing and capitalization, dividends payments in PSUs etc.

Section 3. financial control in PSUs through ,internal auditing, budget and budgetary control, costing and cost control, performance and zero base budgeting, line-item budgeting, performance budgeting, programmed budgeting, zero base budgeting etc 4. Memorandum of understanding (MOU), in PSUs.

Investment management in PSUs

Like in the private sector, investment management is an important segment of the finance function in PSUs. In 2002-03, the net block of PSUs was Rs 262,535 crore .the capital works in progress amounted to Rs 64,081 crore. The fixed assets, which also include investment under the heads “unallocated expenditure” and “other fixed assets “totaled Rs 48,304 crore during 2002-03.The total investment in fixed assets of all kinds was about Rs 461,222 crore in the case ofPSUS.

Working capital management in PSUs

The management of working capital is a vital element in PSUs. The assets of the central PSUs were of the order of Rs. 461,221 crore in 2002-03. The liabilities and provisions amounted to Rs 47,466 crore inclusive of cash credit and short term advances .These enterprises had a net working capital of Rs 156,202 crore in support their day to day operation. The management of working capital causes problems both in respect of individual components of assets and the volume and maturity of liabilities. A number of enterprises do not have a well defined policy in regard to working capital management. The board of directors in the case of each PSUs is expected to determine the reasonable level of working capital and review the position from time to time to ensure that the total investment in working capital is kept at as low as possible PSUSs could approach the state bank of India or any other nationalized bank of finance their working capital requirement. The bank should be requested to provide for the entire working capital needs. If necessary, the excess over the margin money could be provided by a guarantee from the central government. The margin money should be arranged by these PSUs on their own . Whenever the total requirement of the working capital cannot be made by cash arrangement with the banks, the PSUs may approach the government for short term loans. Such request are examined visa –via the position of the internal resources of the undertakings the use of the deprecation fund for working capital need is get categorically prohibited. If a PSUs wishes to transfer its entire amount from one public sector bank to another, or to make a change in the membership of consortium of banks financing it, it is open to it to settle the matter in consultation with the banks concerned.

Financing and capitalization in PSUs

Financing decisions occupy a key lace in the financial management of PSUs at the end of march 1994, the government investment stood at Rs 55683 crore this was about 20% of the total investment in PSUs some state government financing institution the banks both Indian and foreign have also contributed to the investment in these enterprises, the sources of financing in PSUs have many silent features. The government has been the main provider of both equity and long term depth in PSUs internal financing place and insignificant role as a source of financing. The financial institution has provided about 2% of the total long term investment needs. Foreign equity or loans account for more than 10% of the long term investment needs. Deferred credit took a lion's share of the foreign finance. Private participation from Indian business and investors is about 11% of their long term resources. A major chunk of this amount has come in the form of bond and public deposits. The capital structure in PSUs is formulated on the basis 1:1depth equity mixed suggested by the government of India in 1961, such a mix have been vehemently opposed by the PSUs managers, the committee on the public undertaking and the administrative reforms commission lend their support to the contention of managers those whom support the government policy argue that differentiating between equity and loans is immaterial in the case of PSUs as both the dividend and interest are a transfer entry. These argument does not stand good when PSUs approach the capital and financial markets for raising bond and public deposits moreover these arguments is against the basic principles of financial motivation to optimize the capital structure.

The dependence of most PSUs on government finance sustainably in the face of challenges placed before PSUs it is not a matter of time that they would be required to considerably reduce their dependence on the government as a result they would have to approach the capital markets in future constantly.

Financial control

Financial control includes internal audit, budgeting and financial reporting system. Internal audit is a big link in the chain of financial control in the PSUs. According to section 619 of the companies act 1956 a government company should make available its accounts to the controller and auditor general of india,for his review. In this audit reports on PSUs controller and auditor general always held the view that PSUs should strengthen their internal audit. The steel authority of India limited udyog limited, Indian rare earth's limited, stale trading corporation heavy Engineering Corporation and Indian terrorism corporation should be cited as cases in point. Internal audit is a important component of financial control. This element has not received its due attention at the hence of PSUs management of its location, organization empowerment, resource allocation staffing and performance it is therefore suggested that in the 1st stage , internal audit is given the status of an independent function reporting to member accounts in the 2nd stage the internal audit department may report to the chairman and finally only to a committee appointed by the board or the board itself the elevation of the internal audit function to such Vanessa status would increase its coverage and effctectiveness and bring of activities within its gamut,.

Budget and budgetary

The budget and budgetary control form the backbone of any control system. Till 1960 PSUs were characterized as entities devoid of budgeting and budgetary control system .It was only on the renewed insistent of the estimates committee, public accounts committee on public undertaking, and administrative reforms commission that these enterprises introduced budgeting. PSUs prepared a master budget which is supported by budgets classified partly under three heads revenue, capital expenditure and cash budget. While enterprises such as steel authority of India limited and Bharat Heavy Electrical Limited have earned the distinction being good planner and executers of the area of budgeting and budgetary control. There are scores of other PSUs which are yet to accept the budget philosophy. The budget target are evevolved not by consensus but from top down to bottom, the incremental approach to budgeting over shadows the zero base and program come performance approaches the budgeting system is not supported by a proper backup of the management information system.

Costing and cost control

Costing and cost control have received attention in a large number of PSUs. It is interesting to note that many PSUs either do not have cost manuals or have not developed proper systems and procedures to put the cost manuals into practice. the cost has been not standardized. The cost audit conducted is few and far between .cost reduction drives are seldom undertaken. The concept of just -in -time inventory is still uncommon to PSUs. Variance analysis is not a regular feature, and the information resulting from such an analysis is not effectively utilized. Raw material consumption norms and optimum inventory limits have not been attempted indigenization and import substitution are rare phenomena. The best way to come out of this muddle is to introduce extensive costing systems and install appropriate procedure for their operationalisation.

Performance and zero base budgeting

Developing and adopting a budget is perhaps the single most important and time consuming activity of any organization whether in a government department, PSUs or Private Sector Company. However, developing countries, like India, have been facing severe fiscal constraints due to rising demands for more and better public services. Over the years, the governments at every level have been discussing, experimenting with ,and implementing new ways of budgeting .the budget is increasingly being talked about as a tool to promote accountability and effectiveness, rather than simply as a vehicle for allocating resources and controlling expenditures. Similarity, since the 'liberalization, of Indian economy, the environment of PSUs has undergone substantial changes. PSUs have been trying to respond to these changes in some manner specially by reforming their budgetary practices. Performance budgeting and zero base budgeting (ZBB) are special budgeting techniques used by government departments and companies.

Line-item budgeting

Despite several budgetary innovations and experimentsations, the line-item or incremental budget represents the most commonly used budgeting method. In a line-item budget, each category of activity is afforded its separate appearance. It facilitates very less detail for both planning and cost control purposes. It assumes the continuation of present programmes.the proposed line- item amounts are generally based on predetermined increases from last year's amounts. In other words, previous years actual spending is extrapolated for next year by adding a growth factor (generally for inflation). The main advantage of line-item budgeting is the ease of its preparation; it makes a simple comparison of performance from one fiscal period to another fiscal period. The main problem with this approach is the difficulty of relating the line budget to the goals of the parent organization. Without many reviews, past inefficient activities are carried farward, making some resources wasteful.

Performance budgeting

Originated from the US, performance-based budgeting has been widely applied in government and other public sector entities around the world. Indeed, it is a system that the world bank and the international monetary fund (IMF)recommend to countries seeking to reform their budgetary system. Performance budgeting (PB)is a system wherein managers are provided with the flexibility to utilize department or organization's resources as required, in return for their commitment to achieve certain performance results. PB is a system of planning, budgeting,and evolution that emphasizes the relationship between money budgeted and results expected. Common characteristics of a performance budget include .organizations identification of mission ,goals, and objectives.

- Linkage of strategic planning information with the budget.
- Development and integration of performance measures into the budget, and
- Disaggregation of expenditures into very broad areas (such as personnel, operating expenses, and capital outlays) rather than specific line-items.
- Some of the positive aspects or advantages of PB are as follows;
- PB has more of a policy-making orientation. It connects plans, measures,and budgets.
- PB forces departments and policy-makers to think about the big picture.
- PB provides better information about the impact of budget decisions on people.
- PB gives departments,s increased budgetary flexibility and incentive for generating budget savings.
- PB allows for ongoing monitoring to see if agencies are moving in the right direction.
- PB helps in developing unit costs for the activities. Activity-based costing may be applied under this approach.
- PB strengthens legislative decision-making and oversight.
- PB enhances financial accountability to citizens, decision makers, and governmental monitoring agencies, and
- PB supports better management and evolution.

Performance information can increase public accountability and public services.furthermore, performance information provide decision makers information they need for evidence-based policy-making. The primary disadvantages associated with a PB are the emphasis on quantity, not quality, of the activity being monitored. Beside, the link between performance measures and resource allocations are subject to political choices. There may also be lack of credible and useful performance information. In addition, difficulties may arise in achieving consensus on goals and measures. There could also be dissimilarities in program me and fund reporting structure as well as the limitations of information and accounting system.

Programme Budgeting

Under the programming budgeting system, department or agency budget requests not only include the funding that it would like to receive, but also the outputs and outcomes they expect to produce as a result of that funding. The legislature then establishes performance targets for outcomes and outputs in the implementing act to the appropriations act. Departments or agencies then report their actual performance in their long range program me plans and budget requests for the following fiscal year. Agencies may be given incentives for performance that exceeds standards or disincentives for performance that falls below standards. These incentives and disincentives can be monetary or non monetary. An example of monetary incentives would be performance bonuses for employees and managers. An example of non monetary incentives would be an increase in budget flexibility.

Therefore, by its nature, a programmed budget focuses on the output services that the programe provides to its users. It also more readily relates to overall organizational goals and objectives. Zero-base budgeting (ZBB) is a budgeting method for a corporation or government in which all expenditures must be justified afresh each year and not just amounts in excess of the previous year. Under ZBB, nothing is considered as sacrosanct. Every time, the managers are supposed to start from scratch or writing on a 'clean slate'. ZBB is claimed to be a new technique of planning and decision-making. It reverses the working process of traditional budgeting. In traditional budgeting, departmental managers need to justify only increases over the previous year budget. This means what has been already spent is automatically sanctioned. While in ZBB, no reference is made to the previous level of expenditure. Every department function is reviewed comprehensively and all expenditures rather then only increases, are approved. ZBB is a technique, by which the budget request has to be justified in complete detail by each division manager starting from the zero-base. The zero-base is indifferent to whether the total budget is increasing or decreasing.

ZBB was first developed and introduced for business by peters. Pyhrr while working as a manager, staff control, at Texas instruments, increase Dallas. From this beginning, ZBB has been explored and adopted by many other businessesses.later jimmy carter, then the governor of Georgia state, implemented ZBB in the government environment with the help of Mr.Pyhrr. This was followed by some other state and federal government departments and put into practice the management concepts of ZBB. Also, various school districts have chosen to use the ZBB model for managing their educational operations. The result was mixed. The development and implementation of the ZBB model requires managers and others in the organization to engage in several major planning, analytic and decision –making processes. These major processes of ZBB include the following;

1. Identification or redefining the mission and goals of the organization.
2. Identification of the organization's decision units and decision packages.
3. Ranking of decision packages based on cost –benefit or qualities criteria.
4. Fixing a cut-off point for finding.
5. Acceptance and allocation of resources.
6. Budget executions
7. Monitoring and evolution

Decision units and decision packages a ZBB decision units is an activity/program me or department for which decision packages are to be developed and analysed,it can also be described as a cost or a budget centre. Managers of each decision unit are responsible for developing a description of each program me to be operated in the next fiscal year or years. In ZBB, these programmes are referred to as decision packages and each decision packages usually will have three or more alternative ways of achieving the decision packages objectives. These are called funding levels and generally include; minimum level, a current level and an incremental levels.

Under ZBB, while preparing and reviewing begets for programmes and activities, the following certain hard and critical question are asked;

1. Is this program/activity considered redundant?
2. Is this programme/activity legally required?

3. Is there any measurable evidence of the value of the programme/activity under review?
4. Are these goals and objectives of the programmes/activity important enough to warrant the expenditures being made?
5. What would happen if the funding for the programme/activity was not –provided at all?
6. Are there other less costly and more effect ways of achieving these objects?
7. Where would the programme fit in if all programmes were displayed in order of importance?

An important element of this budgeting procedure is that it forces prioritization of programmes and activities. With the prospects of insufficient revenue to match the demand for spending, it is useful for a government or a PSU to have a ranking of programmes and activities based on prevent effectiveness, as well as suggested alternatives to expensive or ineffective programmes. Ranking of decision packages Once the decision packages have been completed, they are ranked in order of priority within the organization. The managers and their staff analyze each of the several decision packages alternatives. The analysis allows the managers to select that one alternative that has the greatest potential for achieving the objectives(s) of the decision packages rankig is a way of evaluating all decision packages in relation to each other. Ranking may be undertaken on a cost-benefit basis or on an agreed qualitative basis. The main point is that the ranking of decision packages is an important process of ZBB.

Application of ZBB

ZBB may be virtually applied to all government department,programmes,schemes and activities .For example, Mahararashtra government applied it on the review of fees and levies ;review of subsidies; review of redundant and low priority schemes; reviews of staff norms; review of work procedures and financial delegation, and review of objectives and priorities of various programmes. In case of PSUs and private sector companies ,ZBB is generally applied in the overhead area on which management has discretionary options or judgment . For example, research and development costs, advertsing, repair and maintenance, internal audit function, training, transportation, printing, and publications etc. however , ZBB is not applicable to direct production area which is better controlled through standard costing and industrial engineering techniques. It is to be noted that a complete methodology of ZBB may not to be applicable in certain situations and departments. As such, a zero base budgeting review (ZBR) may be substituted for ZBB. ZBRis not so detailed as ZBB. It focuses on the review of the most critical activities.

Benefits of ZBB

1. Elimination of obsolete, on-relevant decision packages.
2. Increased or decreased levels of funding for some decision packages and addition of new decision packages.
3. ZBB encourages budget participation at the operating level as a result managers and employees become more focused.
4. The comprehensive resource cost analysis process is a strong internal planning characteristic of ZBB.
5. ZBB when properly implemented holds great promise for assisting personal of an organization to plan and make decision about the most efficient and effective ways to use their available resources to achieve their defined mission ,goals and objectives
6. Result inefficient allocation of resources as it is based on needs and benefits

7. Forces and derives managers to think critically in order to find out cost effective ways to improve operations
8. Useful for service department where the output is difficult to identify
9. Increases communication and coordination within the organization
10. Managers and employees learn more about the organization, activities and problems.

Memorandum of Understanding (MOU) in PSUs

The PSUs dominate the public enterprise system in India in terms of investment and their presence in the various sectors of the economy. These enterprises registered a phenomenal growth between 1960-1980. However as noted earlier they were more focused on the social dimension of their performance as compared to their economic dimension. This resulted in their under performance in terms of indicators concerning the bottom line leading to question about their retention in the portfolio of the government. The Krishna menon committee 1959 the administrative reforms committee 1967, The MS pathak committee 1971, the Mohammed Fazal committee 1980m and the Jha commission 1983, commented at length on the performance of the PSUs. These committees expressed their concern about the low performance of these enterprises and offered a number of suggestions to improve their functioning. The government of India appointed the Arjun Sen. Gupta committee 1984 to look into the performance of these enterprises intensively.

These committees observed that the unhealthy interface between the government and the public enterprises was the key reason for the unsatisfactory performance of the PSUs. The committee, therefore, recommended the adoption of the memorandum of understanding (MOU)as an instrument to rectify the sub-optimal interface between the PSUs and the government. In pursuance of the Arjun Sen. Committee, recommendations, the government introduced the MOU in PSUs in 1987-88during which year four enterprises signed the MOU. The number of MOUs signing enterprises increased to 99 in 2003-04. During the first few years of the introduction of MOU in the PSUs the government was guided by the French model of MOUwhich did not relate the performance to rewards. But, later on the government of India switched over to the Korean Model of MOU which linked performance to incentives. MOU in India The basic philosophy guiding the MOU is to create an understanding between the government and the PSUs about the accountability of the latter to the former and the autonomy the former would provide to the latter in the task of achieving the objectives for which the PSUs were set up. It was expected that such an agreement would minimize the references that the PSUs were expected to make to the government, on the one hand, and control that the government would exercise on the PSUs to ensure their effective performance, on the other.

Performance contracts for public sector units are known as MOUs (memorandum of understanding) in India. The MOU is rooted in an evaluation system which not only loss at performance comprensively, i.e., at both commercial and non commercial criteria of performance in their static and dynamic aspects, but also ensures and forces improvement of performance of management and industries by making the autonomy and accountability aspects clearer and more transparent. It is an annual document which is an intrinsic part of a long- term corporate plan in which the government (represented by the secretary by its CEO) lay down their mutual cbligations and responsibilities, based on the missions and objectives of the public investment, and after mutual negotiations. The idea is to choose appropriate criteria, assign mutually acceptable priorities to them and decide at the beginning of the year how the achievement of targets (and deviations there from) are to be evaluated. The crux of the evolution system is to set the evolution parameters in advance and before the actual performance is delivered. Further, the process of negotiation is assisted by an objective third body which finally evaluates the performance also importing complete objectivity into the system. The public enterprises survey, 1988-89, presented to the parliament on 15 march, 1990, spelt out the purpose and mechanism of MOU in the following words; "in order to improve the performance of the public sector, government took a policy initiative by introducing the concept of memorandum of understanding.MOUis an instrument ,which defines clearly the relationship of PSUs with the government, to achieve better performance. The MOU is also an attempt to bring a proper balance between accountability and autonomy. The emphasis is on achieving the negotiated and agreed objectives rather than interfering in the day-to-day affairs".

The main objectives of introducing the MOU were to reduce the quantity of controls by the government and substitute the same by the quality of controls by linking managers with ministers. In the budget presentation for the fiscal 1996-97,the government reiterated this concept and allocated sincere involvement of PSUs in the formulation and implementation of MOU towards unnecessary public criticism, on account of public accountability, conferment of greater autonomy to these enterprises gradually over a period of time with regard to matters concerning capital expenditure, mobilization of funds, formulation of incentives schemes, joint ventures,etc.The public enterprises policy pronounced by the government of India on 24july 1999 as a part of the "statement on industrial policy suggested at greater thrust on autonomy through MOU system through which managers were to be granted greater autonomy and were to be held accountable.

Concept and Objectives of MOU

The concept of memorandum of understanding is very simple. It is supposed to be a freely negotiated document between the government, acting as the owner, and a specific PSU. Second, it is supposed to clearly specify the intentions obligations and mutual responsibilities of both parties to the Memorandum of understandings (MOU).

If either of the above two conditions is violated, the effectiveness of the MOU as an instrument of performance improvement is bound to be affected. Further MOU makes an attempt to improve the management of PSUs from management by controls and procedures to management by results and objectives. Another way of saying the same thing is that MOU makes an attempt to move the management of PSUs from reliance on ex-ante controls to a system of ex-post controls.

The objectives of the MOU system are

1. Measure the performance of PSUs taking into account the complexity effusing social and financial objectives and translating them into measurable parameters;
2. Ensure simultaneous increase in autonomy as well as accountability.
3. Set up new institutions and administrative and personnel system;
4. Replace 'multiply' principles with multiple objectives with clarity in goals and objectives.

Literature of Review

PSUs in India have to provide a face-lift to their finance functions to make it useful to 'top management' therein. The present' mindset' in finance has to give way to appreciate the new sensitivities. PSUs are discerning the trend to develop suitable organization for their finance function. Financial management in PSUs shows that they have to go a long way to shore up their financial functioning. There is an immense scope to economies on fixed assets and working capital. There is an immense scope to economies on fixed assets and working capital.

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There is a need to strengthen the financial control mechanism. The trends in the global financial management show that 'risk assessment" and controlling cost are the greatest financial challenges faced by business enterprises and new initiatives to strengthen financial management in public enterprises need to be focused on these areas. The chief executives are increasingly relying on their finance professionals to help them navigate through the maze of new economic legislative and commercial risk.

The effective use of financial information is regarded as a door way to success with well trained finance specialist holding the key to unlocking its potential. Public enterprises may quite well respond to these challenge by designing and implementing suitable training programmes for their finance executives .The approach to financing and capitalization need a new orientation providing for emphasis on assets liabilities management capital adequacy ratio, change from excising control bias to support service and domestic to global financial management. The finance ,non finance interface requires to be placed on better footing. The new portends in financial management in PSUs indicate sign of these transformation the changing shape of finance function emphasis the need for paradigm shift in the present role and responsibilities of the financial management in PSUs. Often a question is asked as to how financial management in PSUs is different from its counterparts in the private sectors. The distinction is numerous. Where as in private enterprises the financing is done on long and short term consideration, in PSUs this needs to be done keeping in view their stage of operation. The sources side of the balance sheet of PSUs reveals that these entities depend more on external sources, where as their counterparts in the private sectors have tendency to depend more on internal resources. The use of current liabilities as a source of finance is less in PSUs as compared to the enterprise in the private sectors. The cost of capital is at the back every move in private sectors enterprises. The control mechanism in PSUs is still evolving and has yet to take firm root. There are five main drivers for change in the shape of the finance functions in PSUs.

1. Intense competition,
2. New opportunities, but also new risk
3. Increasingly onerous regulatory and environmental pressure.
4. Shareholders and stakeholders activisms with social pressure often running a head of strictly legal requirements influencing corporate governance.
5. An entirely new attitude to quality and service regarded as an act of faith and obtain even transacting all financial calculations.

Table 1; Aggregate Profit and Dividend Declared by PSUs for the period from 1984-85 to 2002-03

Year	No. of PSUs earning profit	Aggregate Profit After Tax of PSUs in (2)(Rs in croers)	No. of Dividend paying PSUs	Aggregate Dividend Declared by PSUs(Rs in crores)	Average payout
1984-85	113	2,021	58	177	8.76
1985-86	119	2,857	60	191	6.69
1986-87	108	3,470	64	213	6.14
1987-88	114	3,775	58	314	8.32
1988-89	117	4,917	57	353	7.18
1989-90	131	5,751	55	323	5.62
1990-91	123	5,394	56	413	7.66
1991-92	133	6,079	62	687	11.30
1992-93	131	7,384	64	792	10.73
1993-94	120	9,878	61	1,015	10.44
1994-95	126	7,186	67	1,436	19.98
1995-96	142	9,878	79	2,205	22.32
1996-97	132	9,991	81	3,084	30.87
1997-98	134	13,725	95	4,050	29.51
2002-03	118	43,085	81	13,735	31.88

The emergence of neo-classical monetarism, new public management and economic globalization did play integral role in the financial sector liberalization that ultimately led to the current global financial and economic crisis. The sea change of public sector reform in the 1980s and 1990s resulted in privatization, outsourcing and load shedding of public responsibilities, with the United States and the United Kingdom leading the way. During the same time, discourse about the proper size, role and functions of government underwent sharper transformation (Lee & Strang, 2006). While the neo liberals argued for the importation of market mechanisms into the public arena, their New Public Management allies argued lean public agencies will be responsive to citizen customers (Osborne & Gaebler, 1992). Some empirical evidence (Lee & Strang,
2006) reveal that downsizing has international contagious effect, and that change in the
size of the public sector is linked not only to domestic economic and political conditions but also international policy diffusion. Neoclassical liberalism and the call for New Public Management led to market-based regulation of certain public entities, including financial institutions in the western world, and ushered in periods of not only economic growth but also unrestrained capital markets. Indeed, since the beginning of the 1990s, the world had seen a shift from a largely legally based regulatory approach toward a greater use of voluntary, collaborative or market-based regulatory instruments (Busch, Jorgens & Tews, 2005). In fact, existing governmental regulatory institutions were paralyzed by the problem of regulatory capture, regulatory forbearance and regulatory arbitrage. Consequently, little or no institutional safeguards and control mechanisms were put in place to guard against the excesses of the free market self-regulatory system. The global financial and economic crisis has profound policy and administrative implications when placed in historical context regarding prudent regulatory governance and healthy financial and economic system. Each nation

seeks governing arrangements that help it to achieve material well-being and to secure its political and social goals. As argued by Lehne (2006), a society establishes a set of political institutions, which in turn construct the legal framework in which the country's economy operates and its markets function. This framework reflects the nation's political judgment, and since the nation's political values permeate economic institutions, markets can never be completely divorced from politics and public policy. Therefore, despite the different governing arrangement of each nation, the basic truth is that although politics and markets are frequently viewed as alternative mechanisms guiding societies, they are indeed, intertwined (Zysman, 1983; Dobbin 1994). This implies the nature of a nation's public policy and hence regulatory framework impacts the functioning of its financial and economic system.

Objectives and Methodology

- Preparation of long-term operating budget.
- Preparation of long term capital expenditure budget to the reporting on capital expenditure in regard to the expenditure likely to be incurred during the year.
- Preparation of the annual operating budget.
- Preparing the budget returns that flow out of the comprehensive budgetary system in operation.
- Analyzing variations between budget figures and the expenditure incurred, and comment on the causes that have led to such variations to facilitate the management to control expenditure.
- Preparation of cash flow statement.
- Assessment of total working capital requirements for the fiscal year.
- Assisting in all matters relating to purchase of equipment, raw material, and laying down suitable procedures for purchase.

Regulation is a mechanism to insist that public purposes be respected by businesses and other nongovernmental institutions in their operations (Lehne, 2006). Our understanding of the role of regulation in the relationship between government and private institutions is dominated by two basic theories – the public interest theory and the private interest theory (Mitnick, 1980).

In this research paper, we have used **Descriptive Research Methodology** for PSUs studies. According to **Best and Kahn (2007),** "The term descriptive research has often been used incorrectly to describe three types of investigation that are different. Perhaps their superficial similarities have obscured their difference. Each of them employs the process of disciplined inquiry through the gathering and analysis of empirical data, and each attempts to develop knowledge. To be done competently, each requires the expertise of the careful and systematic investigator. A brief explanation may serve to put each one in proper perspective." Stigler (1971) suggests that regulators are commonly subject to intense and effective pressure from regulated firms to modify regulations and their implementation to suit the interests of the latter. Regulated firms may exercise pressure at the political level, for example, by supplying politicians with one-sided evidence supporting their positions and attempting to gain their allegiance through campaign contributions.
Additionally, they may exercise pressure and influence at the regulatory agency level by Implicitly offering agency staff lucrative employment opportunities in exchange for Being cooperative, and generally inducing the regulators to identify with the regulated industry (Hardy, 2006). As emphasized by Laffont and Tirole (1991) and Laffont (1999), regulatory capture is likely to be more effective when one interest group is highly concentrated and organized and has much at stake, and when the regulations are technically complex and asymmetric information is pervasive, so that outside verification is difficult.
In this paper, descriptive research is not only with the characteristics of PSUs but with the

characteristics of the whole financial problems thereof.

The corporate world has reacted predictably by altering their organization structure and the way they do business. It is no wonder that in many companies the business reengineering programmes are being led by finance, members of the financial staff are regarded as business partners by their colleagues who insist that finance can no longer stand and watch them from the sidelines but must ply a full part in management. The finance director's role has moved subtly from managing the financial staff to representing the financial view at top management level. It is an ambassadorial nature than a purely technical role the three key elements; the factory, the counting house and the power house are still there but there has beep a significant change in focus. Finance is now intimately involved in strategy and planning.

Conclusion

Like the private sector companies, the government companies also aim at profitability and value creation. However, they also focus much more on non-financial and social objectives. The organization of finance function of the government companies is evolving over the years, and it has become now a specialized function with a decentralized structure in care of multi-divisional and multi-product companies. The scope of finance function in the government companies is as extended as in the case of the private sector companies. It includes the funds management, budgeting, cost control, assets management and security etc. The basic principles of value creation govern the investment decision of the government companies. But this company also uses economies return and the social impact criteria in choosing projects. The authority for investment expenditure goes beyond the management of the company. Government departments and ministries play important role in authorizing investment expenditure beyond certain specified limits. Government companies have huge investment in current assets. Hence, working capital management assumes for greater importance. A number of companies (e.g, BHEL, NTPC) have well-established policies and practices of managing working capital. However, a large number of companies have inadequate working capital management. The boards of the companies hardly discuss the working capital management issues and lay down policies and procedures. Most government companies are dependent on the government funding for their expansion and growth. The government funding is available either as equity or debt. Hence, the issues of capital structure are considered redundant as the sources of the debt and equity is the same, that is, the taxpayer's money allocated by the government. A very few government companies make profits and declare dividend. In 2002-03, 81 companies, out of 118 profit making companies paid about 36 per cent of their net profits as dividends. Financial controls in government companies are more stringent in the private sectors companies. They are subjected to internal audit, statutory audit and audit by controller and auditor general. An additional feature of performance evolution and control in government companies is memorandum of understandings (MOU).

MOU is a performance contract between the government and the company management. It specifies the performance targets as well as explicitly states the autonomy and accountability of management in meeting financial and non financial objectives and targets. The emphasis is only reducing the close control of the government and day-to-day interference in the management of the companies. Performance budgeting and zero-base- budgeting (ZBB) are special budgeting control tools used by government companies. Performance budgeting is a flexible system of aligning organizational mission, goals and objectives with budgeted funds and expected results. It takes a comprehensive; policy oriented approach, rather than a short term mechanical approach of preparing budgets. Performance budgeting may be extended to each specific programmes, and it is referred to programme budgeting. Zero- base budgeting is based on the notion that each activity or programme and its funding must be justified each time afresh.

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