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Disinvestment and Efficiency in India's Public Sector Enterprises: A Firm-Level Empirical Study

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Abstract: Disinvestment is one of the major economic reforms in India, and it forms part of the Public Sector Enterprises (PSEs) Reform. However, the impact of disinvestment on the performance of the enterprises is not completely analysed with respect to the Indian context. The paper examines the disinvestment impact on sales and labour efficiency of PSEs, with 7 PSEs in different sectors as sample entities. The paper uses a financial ratio analysis, the Wilcoxon signed-rank test and a fixed effects regression model on panel data from FY 2017-18 to FY 2023-24. Although one cannot tell from these figures whether the firms involved have become more productive, the strong increases in both sales productivity and labour productivity indicate that they most likely have improved after having split. The result of our regression shows that disinvestment has a positive relationship with the operational efficiency under consideration, and cost control also plays a significant role. There were some differences by sector, with the military particularly strong performers of PSEs. The study concludes that disinvestment is not the sole and magic solution to PSEs' efficiency, but other process factors, together with adequate cost consideration and sectoral policies, are also essential. The findings provide valuable information for policymakers to establish a rational disinvestment pathway, which indicates that they should coordinate the reform of ownership and enhancement of institutions to achieve enduring gains.

Keywords: Disinvestment, Public Sector Enterprises (PSEs), Operational Efficiency, Sales Efficiency, Labour Productivity.