There are broadly two aspects of administration of an industrial enterprise. One is formulation of policy that the enterprise is to pursue and the other is organisation of the operations in order to fulfil the objectives enunciated in the policy statement. For a company under the private sector, the two functions are undertaken by two distinct bodies, namely, the Board of Directors which is concerned with enunciating the policy and checking efficiency of operations, and the management which is entrusted with day-to-day operations of the business. In the process of administration of governmental companies, however, we can clearly distinguish three levels: the Administrative Ministry, the Board of Directors and the Executive Management corresponding to the three levels of authority. Since there are basically two problems in the organisation of a concern, viz., policy making and executive, it is sometimes argued that the Board of Directors has to be a functional one. For the Administrative Ministry will be the right authority to deal with policy matters. A functional board consists of full time members and is generally drawn from "inside" of the business whereas a policy making board is one which consists
of full time members largely drawn from people not concerned with actual day-to-day business of the concern. It is argued, therefore, that if the Board of government company is a policy making board, then the two levels of authority tend to merge with one another. The government is here the majority shareholder and is in the last analysis, responsible, for the proper working of the concern. It has lines to formulate the policy and a policy making board becomes superfluous. But if we analyse the actual operations of a government company, we can distinguish two stages in the policy making: one relates to outlining the broad policy that the company is to follow. The Administrative Ministry will be responsible for enunciating the broad policy and to see that the business of the concern is carried out within the defined policy. It has, therefore, got to check periodically the level of efficiency in the operation of the concern. The ministry has also the responsibility of appointing the top management of the companies.

Apart from these, there are many other decisions which have to be made at some level below the Administrative Ministry - this is, to use Prof. Dimock's language, the question of sub-policy making. As Prof. Dimock has pointed out there is an important area of sub-policy and decision-making midway between the overall action of the Congress and the point where the administration takes up. It is in this area that a representatives and resourceful Board of
Director must occupy if Government corporations are to operate with efficiency and accountability. The responsibilities of such a board, according to Prof. Dimock are:

(i) sub-policy making i.e., making decisions relating to internal organisation and procedure necessary to give effect to general government-set objectives;
(ii) checking the internal budgetary programmes;
(iii) studying organisational questions;
(iv) making strategic executive appointment;
(v) controlling financial methods and reporting; and
(vi) conducting public relations*

Thus, a board of directors with adequate power and responsibility, should be constituted for each of these enterprises.

In foreign countries also we find that the most successful enterprises have been those that have enjoyed the largest degree of autonomy of operation. Mention may be made of the German, Italian or French Government enterprises.

In India, each of the companies is managed by a Board of Directors which is supposed to exercise all the powers that are normally vested on the Boards of limited liability company under the Indian conditions. As at present constituted, the Boards of Directors consist mostly of official members. The President of India, being the majority share holder, determines the number of directors. The appointment and

removal of the members are made in his absolute discretion. He also nominates the Chairman of the Boards of Directors of these companies. The following table will show the extent of participation of government officials on the Board of these concerns:

<table>
<thead>
<tr>
<th>Name of the Company</th>
<th>Total No. of Directors</th>
<th>Official</th>
<th>Non-Official</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Bharat Electronics</td>
<td>9</td>
<td>9</td>
<td>Mil</td>
</tr>
<tr>
<td>2. Hindustan Aircrafts</td>
<td>9</td>
<td>9</td>
<td>Mil</td>
</tr>
<tr>
<td>3. Hindustan Antibiotics</td>
<td>12</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>4. Hindustan Cables</td>
<td>10</td>
<td>8</td>
<td>2</td>
</tr>
<tr>
<td>5. Hindustan Housing</td>
<td>4</td>
<td>4</td>
<td>Mil</td>
</tr>
<tr>
<td>6. Hindustan Machine Tools</td>
<td>9</td>
<td>7</td>
<td>2</td>
</tr>
<tr>
<td>7. Hindustan Shipyard</td>
<td>12</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>8. Indian Telephone Industries</td>
<td>8</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>9. Nahan Foundry</td>
<td>10</td>
<td>8</td>
<td>2</td>
</tr>
<tr>
<td>11. Sindri Fertilisers &amp; Chemicals</td>
<td>10</td>
<td>6</td>
<td>4</td>
</tr>
<tr>
<td>12. Praga Tools Corporation</td>
<td>7</td>
<td>6</td>
<td>1</td>
</tr>
</tbody>
</table>

This table shows that for most of these companies more than two-thirds of the members are officials. The officials are appointed by virtue of their official position and not for any special ability for the industries to which they are attached so that when there is a change in the post of the office, there is a resultant change in the composition of the Board.


*As on 1960*
board also. And it is found from an examination that such changes are quite frequent: 250 members out of 530 served a single board for not more than one year and 311 served for not more than three years. In the board composition of the Hindustan Shipyard, for instance, there were as many as ten changes during the period 1954-56 owing to changes in the offices of the ministry concerned.**

The Chairman of these companies are nominated, with a few exceptions, from the officials. The Sindri Fertilizers and Chemicals for instance, has a non-official Chairman. Usually the Secretary or the Joint Secretary of the administrative ministries is the Chairman of the concerns under the same ministries.

This particular set up, which is usually the way a board is formed, introduces a bureaucratic way of dealing with the affairs of the companies as if they were just departmental affairs. This rigidity in the outlook is the very thing which the government wanted to avoid for industrial and commercial concerns when they organised them as companies. This practice tends to blur the responsibilities of the Secretary, who has to advise the minister on the matters of policy while at the same time as a Member of the Board he has to share responsibilities for the execution of these policies. The officials moreover lack the business technique

**See also Committee on Public Undertakings Lok Sabha Secretariat, New Delhi 1965 - Second Report - Appendix
that are essential for taking business decisions. Civil Servants are usually prone to play safe. This state of affairs is all the more aggravated by considerable amount of interlocking in the boards of these companies. As there are not many senior experienced men in the government a single senior official is made to serve a large number of boards of such companies. There is one such official who holds directorship of ten companies, two officials hold 7 and three officials are directors of five companies each.*

The purpose of forming autonomous enterprises was to maintain unity and continuity of operations. This has hardly been served by members who are eventually transferred from one board to the other. The frequent transfers also show that the officials are chosen not for their particular ability but for the official position they hold. The inevitable result therefore is that they cannot identify themselves with the particular enterprises with which they are connected but are forced to represent the government view and try to apply uniformly the same standard for all the concerns they are attached with. This system thus ignores the necessity of considering that every line of production is unique in itself, and should, for the purpose of efficient conduct of business, be treated on the merit of it. Further, it also hinders the evolution of a body of experienced personnel which can deal

efficiently with the problem of a modern industrial organisation.

The Government of India has recently been aware of the shortcomings of such a system. The Krishna Menon Committee objected to the appointment of civil servants on the boards of those enterprises and suggested taking up more and more non-official members on the board. The suggestion has been to include businessmen from the private sector. But people who are directly in competition with the public sector will hardly help in the smooth running of the concerns.

Recently on the recommendation of the Estimates Committee the Government of India has introduced private share participation in the capital of these companies with a view to introducing business initiative in the operation of these enterprises. This is also a hardly commendable proposal. The private interest can only be effective if the share is of a significant proposition. And if the share participation by private interests is of any consequences then the project no longer remains a public enterprise in the proper sense of the term.

The practical and effective way in dealing with this problem will be forming the boards mainly with non-official members - men who are actually connected with or have experiences of business. Members have to be selected on the boards on the basis of their special ability, competence,
experience in different problem relating to such concerns. These may, for example, be specialists in buying, selling, production, invention and price controls etc. on the boards of the companies. In the companies in which there were experienced non-official persons the tasks were very well done.

Another aspect which has also been neglected so far is the strength of the Board. No principle has so far been followed in fixing up the number of the board. Hindustan Steel, for instance, with a capital investment of Rupees 742.10 crores consists of eight directors whereas Hindustan Antibiotics with a capital investment of Rs.2.47 crores have twelve directors on board.*1 It is essential that the strength of the board should be decided on the basis of essential representation of management, ownership and business experience and secondly on workable size which fixes the maximum size which will depend on nature and scope of activities. In Sindri, take one instance, the non-officials have been more helpful than the officials.*2 Inclusion of non-official members will also bring in unity and continuity of purpose. They will perhaps better guarantee the maintenance of autonomy in the internal affairs of the company.

*1 Reports of the Companies 1962-63.
It may also be noted that, with a few exceptions, in all the boards the Chairman is either the Secretary or the Joint Secretary of the ministry under which the company is working. In some cases even the ministers hold the Chairmanship. If the Company form has been adopted for flexibility and autonomy of operation, there is no justification of choosing a minister or a senior official of the ministry concerned to be the Chairman of the Board. Instead, a non-official full time Chairman will help bring flexibility and continuity in the management of the company. Appointment of a minister on the board of a company may tend to bring in political pressure on the affairs of the company. One more practice, which, appears to be detrimental to the proper functioning of a public enterprise is the presence, in some cases, of a member who represents the Finance Ministry. He has generally got the right to go directly to the Government whenever he disagrees with the board. This set up is a clear indication of how Government interference might destroy the autonomy of a company. The important thing that is to be suggested here is that the legal form as such is not always so much important as the men governing the operations, because they determine the practice which the management of an enterprise will have to follow. Provision to ministerial approval for too many matters of details will be a slow-moving affair.
The Government of India has also, been trying to appoint on the board persons who represent labour point of view. But labours of particular enterprises have not so far been included on the board. Almost all of them are officials of the Indian National Trade Union Congress, including also a few who are members of Parliament. There is one comment which may be made here: unless suitable persons are available it is not advisable to include, as a matter of principle labour leaders on the boards of a company. It is all the more undesirable that members of Parliament should be appointed on the boards for they too may bring political considerations in the working of such companies. The present stage of these companies as it is, participation of interests as such should not be a matter of principle. What the aim should be is to have boards that will be able to meet efficiently the need for proper functioning of these companies.

The function and responsibilities of the boards are outlined in the articles of association of these companies. The provisions of the articles hardly differ from one company to another. The President of India determines the number of board-members. The appointments and removals depend on the

*The following companies have included labour leaders on the board: Hindustan Machine Tools, National Newsprint & Paper Mill, Sindri Fertilizers & Chemicals, Hindustan Insecticides, Hindustan Antibiotics, Hindustan Cables, Heavy Electricals besides few other enterprises not included in the present study. – Vide V.V.Ramanadhan: Pricing, Labour and Efficiency in Public Sector. Department of Commerce, Osmania University 1962: p.55
absolute discretion of the President. Besides the general power of managing the business of the company, the board of each company has the following specific powers:

1. The board can acquire property and pay for property in debentures, etc.
2. It can secure mortgage for contracts.
3. It can undertake capital works up to Rupees Twenty Lakhs.
4. It can appoint officers on a salary of less than ₹2,000/- per month and can also appoint trustees.
5. It can invest money in the Reserve Bank of India or in such securities as may be approved by the President of India.
6. It can give security by way of indemnity.
7. It can pay bonus to workers.
8. The Board can establish local boards for managing any of the affairs of the company or sub-delegate powers subject to the ultimate control and authority being retained by them.

Besides these specific powers, there are certain matters in which the company must obtain the prior approval of the President:

1. increase of capital;
2. issue of new shares;
3. reduction of capital;
(iv) consolidation, division and sub-division of company's share capital;
(v) borrowing - its terms and conditions;
(vi) issue of bonds, debentures, debenture stocks and other securities at a discount;
(vii) investment in securities;
(viii) grant of commission on profits;
(ix) setting aside portion of profits by Directors for Reserve Fund, Depreciation Fund, etc;
(x) Further, in any matter which the Chairman of the Board thinks to be so important as to refer it to the Central Government for consideration. If however, such an issue is referred to the Government the decision must come within two months. After the lapse of the period, in the absence of any directive from the Government, the Board will be entitled to take action on the matter independently of Government decision.

(xi) Lastly, the President of India may, from time to time, issue such directions as he may consider necessary with regard to conduct of a company's affairs.

The boards of these companies are policy-making although the formulation of broad policy is done by the Administration Ministry. They are therefore properly to be called the mouthpiece of the Government. The Lok Sabha Estimates Committee once observed that public enterprises seem to be 'more or
"less extension of the department and run almost in the same pattern with minor changes here and there." This was again confirmed by Mr. Benson Gyles, formerly Chief Engineer of Sindri Fertilizers and Chemicals, who once stated "current business is transacted between Managing Director and the Ministry and many Government rules concerning finance, security and promotion apply automatically." If this is how actual operations take place then there is no reason why Government companies should be formed instead of departmental organisation. Once company form has been chosen for the particular advantages, it must retain the usual form. The one alternative would therefore be to form strong boards dealing with sub-policy matters with regard to the working of the company. Such a board will also act as a liaison between the Administrative ministry and the executive management of the company. One step which might be taken in order to rationalize the administration of such companies would be to form one board for different units producing the same or very similar commodities. From the recent trend it is evident that the Government will establish more than one unit producing steel, fertilizers etc. and Government has decided to set up one more Machine Tools Factory and two more Newsprint Factories. There may, for example, be

one Board for Hindustan Machine Tools, Praga Tools Corporation and other machine tools factories that the Government might set up in future.

Once this problem of proper organisation of Board of Directors is solved another important problem that awaits solution is that of executive management i.e., the way in which the actual day to day administration of the companies is conducted. The problem of internal administration is one of the most vital one in the organisation of an enterprise. One point which is particularly relevant to public enterprise is that it has special responsibility of ensuring scientific management of business. For in India, private business is run mostly on traditional lines and there has not been much advance in the matter of scientific management. There are a number of managerial problems which are to be solved by the State-enterprises - the problem of span of control and that of delegation and decentralisation. The problem relating span of control has hardly been tackled seriously in India. In a confidential report on the management of a certain public enterprise in India which Prof. Hanson mentions, it is shown that there are sixteen departmental heads to report to the Managing Director who is always a very busy man.* This report also indicates that these top level relationships form one of the major bottlenecks in the organisation, giving rise to procrastination, indecision.

*Hanson: Managerial Problems in Public Enterprise, Asia Publishing House, India 1962, p.61.
misunderstanding and strained relations. More and more
delegation of power is therefore essential so that the
Managing Director has to deal with a few officials only,
who in turn will be supervising the business of the lower
level. For example, in Praga Tools Corporation the General
Manager, who also is a member of the Board of Directors,
is assisted by departmental executives, namely the Financial
Adviser and the Chief Accounts Officer, the Works Manager,
the Commercial Manager and the Administrative Officer. In
many of these companies there are Works Committees consisting
of representatives of management and labours.

The highest authority in the administration of these
enterprises is the Government - and in these particular cases,
the Government of India. The Government being the
majority holder is the final authority for policy making and keeping
an eye on the final results. That is one can define three
distinct functions of the highest authority to ensure that
public enterprises work within the limits of clearly defined
policy and to check efficiency periodically. Moreover, it
is the authority to make appointments to top managements. But
in case of these enterprises there has been interference by

*The following are the enterprises which have Works Committees: Hindustan Machine Tools, National Newsprint and Paper Mills, Sindri Fertilizers & Chemicals
Hindustan Antibiotics, Hindustan Insecticides, Hindustan
Cables among other public enterprises in India.
(Vide Annual Reports of these Companies 1962-63)
the Government more than that may be justified. Particular mention may be made of the Life Insurance Corporation deal which shows how the minister influenced the working of the enterprise without himself taking the responsibility of the deal. Two vital matters which have not been seriously considered are clarity in outlining objectives that the enterprises are to pursue and proper and clearcut apportionment of responsibility. With clarity of objective there should also be clarity with regard to decisions that are to be made - decisions regarding alternative courses open to an enterprise. In these respects there has been vagueness and uncertainty in the policy of the Government. There has been vagueness, for instance, in the concept of accountability and lack of clearcut formation of the articles of association. And lastly in the composition of boards also there has been a complete lack of understanding as to the requirements of a board that is to deal with the business of an industrial enterprise, although the Government has declared that these enterprises are to function on commercial lines and make the investment made in them by the Government productive.*

The reforms in the management may be initiated broadly in these ways:

(1) improvement in planning technique;
(2) reduction in tasks decided by the Ministry, and
(3) increase in the scope of decisions of the internal management.

*Lok Sabha Debates, Vol.LVI - 3274
There has to be primary reliance on income incentive than on administrative orders.

It would greatly improve the working if ministerial control concentrates on some important points like capital requirements, long term development plans, research arrangements etc. The function of the highest authority would, therefore be to ensure that the public enterprises work within the limits of clearly defined policy and to check periodically the efficiency of the concerns besides the responsibility of appointing top management personnel and once the top management is constituted, large amount of autonomy should be extended to it. We have however discussed in detail this problem of control and measurement of efficiency. Recently, the Government has decided to enhance the powers of the board to create and fill up posts and to sanction expenditure on capital works. The Chief executive of an enterprise would then be able in emergency to exercise discretionary power and act without consulting the board.

Thus it is evident that proper atmosphere has to be created so that evolution of management skill takes place in India.

We shall now take up the analysis of the working of these enterprises in two chapters. We shall begin with a study of the enterprises that manufacture machine tools and engineering products and follow it up with those producing other kinds of goods.
This will be not so much an exhaustive study of the enterprises, for this is not possible at the existing stage of our knowledge about them, but as case studies which will give us an idea of the state of the Government companies and will point out to the general nature of problems that these enterprises have to solve.