Analysis in the preceding chapter has focussed attention on the fact that cost pattern is tilted to the disadvantage of public enterprises. Factors that have great bearing on cost are large idle capacities, social obligations that the public enterprises are made to bear as 'Model Employer' and supplier of 'Social Goods'. All these have rigged prices. In addition to these, there are many problems that the public enterprises have inherited due to poor planning, unscientific organisation and inefficient bureaucratic management. These enterprises bear the cost of organisation which is inefficient at various levels of management, such as delays in decision-making and consequent operational inefficiency. Professor Farooquee's comments in this respect are quite revealing, "These enterprises in spite of the best Government care and attention have failed to inspire the team-work. What is to say of giving lead to the private sector as regards sound management, they do not even approximate the conditions".
obtaining in the enlightened private industrial concerns."

It is sufficient indication that managerial efficiency of public enterprises is at its low ebb. Hence, there is a good scope for reduction of cost through improvement in managerial efficiency and application of business principles in them.

An analysis in this chapter has been undertaken to identify main problems of the organisation and management of public enterprises of India. To limit the scope of this inquiry, I have confined myself to the major problems of managerial efficiency at the top level of management and their impact on the organisation as a whole. I now proceed to examine them in some detail.

Problems of Managerial Efficiency

Essence of all the problems in public enterprises is the problem as to how the public enterprises and services should be organised and managed so as to promote national welfare without sacrificing the basic need of a commercial and industrial undertaking for efficiency and economy. To quote Professor Farooquee again, "The major problem lies in their internal management and control." Indeed, choice of

organisation and management must accord objectively with the nature of the enterprises, operational and financial requirements, impact on the national economy, resources to acquire the necessary skill and experience, special productivity and managerial needs and the economic climate. Subjectively, it has to be seen whether the intended form of organisation has the necessary operational and financial flexibility and structural elasticity. On the disregard of these basic tenets of management, Professor Farooquee has rightly remarked that "they are functioning as Government departments." It is, therefore, necessary to take a look at the prevalent forms of organisation in the public sector and examine their suitability.

In India, the prevalent forms comprise departmental, corporation and joint stock company forms of organisation. Recently, 'Holding Company' is added to the existing types of organisation.

Of the three forms, it is now generally accepted that the form of the departmental undertaking is not suitable for commercial and industrial enterprises. Its reason is the application of the same procedure in these undertakings as those obtaining in the Government administration. Railways, posts and telegraphs and defence establishments

furnish the examples of this type of organization. In these cases, the departmental form is adopted because their operations, directly or indirectly, affect the entire community and the Parliament and the Government have to keep direct and continuous control on their operations. But, this form is not suitable for these public enterprises which need for their success as commercial and industrial concerns flexibility and autonomy. This cannot be expected of departmental type of organisation. These commercial and industrial enterprises should not be subject to the procedures applicable in the administrative departments of Government including the procedures that govern budgeting, accounting and audit in these departments.

However, public corporations and government company fulfil these requirements. It is significant to note that the Industrial Policy Resolution of 1948 had envisaged that the "management of State enterprises will, as a rule, be through the medium of public corporations under the statutory control of the Central Government." The revised resolution of 1956 did not modify this categorical statement of the Government's policy in this behalf. Nor is there any subsequent declaration of statement in Parliament in modification of this statement. Nevertheless, the Government adopted the company form generally. A number of advantages have been claimed for this form of organisation, viz., participation of private capital - national or foreign. While in other
forms of organisation, private capital can be associated in the form of loans, in the company form it can be associated as a share capital. The need for such association may arise from the government's inability to provide the entire capital for the undertaking and secure sufficient private capital (national and foreign) in the form of fixed interest-bearing loans owing to the availability of more profitable opportunities elsewhere. Sometimes, the Government may intend to enter a field of business just to initiate a process of development of private entrepreneurship. As such, it starts public undertakings in collaboration with the private interests with the intention of ultimately handing them over to private sector. In such cases also the company form of organisation is the most suitable form because it permits the desired change in ownership without the need for additional legislation. In some cases, the government acquires shares of a private undertaking of national importance to put its finances and management on a sound footing. "The Government may have to acquire shares of an existing enterprise in an emergency, in response to financial or employment crisis, or in order to maintain a nationally important production or service which has become unprofitable or insolvent under private enterprise."¹

The company form is popular in India because of the ease and convenience which it offers in setting up an

¹. Estimates Committee, Report on Organisation and Administration of Nationalised Industrial Undertakings, 1955, p.4
The Government does not need the sanction of the legislators to start it. But the company is started by the executive's own decision and action. Even in those cases in which the entire capital is provided by the Government, company form has been adopted like Sindri Fertilizers and Chemicals (P) Ltd., Hindustan Antibiotics Ltd., Hindustan Cables Ltd., etc. It supports the contention that the company form is preferred by the Government mainly due to ease in formation.

It is also claimed by the Government that the company form offers flexibility in regard to capital and managerial structures. Adjustments in this respect can be made as expeditiously as necessary without legislative amendments. A company, for instance, may issue different kinds of capital with corresponding dividend differentials to take maximum benefit of the conditions of the money market and to raise the largest possible amount of capital. Loans may be converted into capital if their purpose is found to be permanent and profitable. Similarly, changes can be made in the management according to the economic conditions. Moreover, it also enjoys financial autonomy. It is not subject to cumbersome financial rules, restrictive procedures and delays which are a permanent feature of the departmental organisation.
The actual working of the Joint Stock Companies in the public sector has, however, shown that the financial flexibility and autonomy are more a myth than a reality. The undefined and unrestricted powers exercised by the Government Department responsible for the State undertakings have such an all-round control that these companies are reduced to mere adjuncts to the ministries and treated more or less like subordinate offices of the ministry. The Estimates Committee observed, "In the relations between these undertakings and the ministry, the former are treated in the same manner as departments and offices of government controlled and supervised by the Secretaries. The State undertakings have thus become adjuncts to ministries and are treated more or less on the same lines as any subordinate organisation or office." The departmental representatives on the Board of Directors are often unwilling or unable to act in their individual capacity and have to refer the matters to their departments for guidance or instructions. In addition, the powers of the Board are restricted in many matters like borrowing, increase in share capital, appointment of General Manager and Managing Director, appointments on salary exceeding a certain limit, placing large orders, entering into contracts, etc. The same is

true of finance. Any scheme involving expenditure, appropriation of profits, maintenance of accounts and audit thereof is subject to the approval of the Finance Ministry.

Government Control Over The Boards

Composition of the Board, their powers and area of action show that there can hardly be any flexibility, autonomy, incentive to efficiency, or inclination to economy. The Board consists of (1) Chairman who is normally the Secretary of the Ministry concerned and is responsible for necessary action; (2) one or two officials of the rank of Deputy Secretary from the Ministry of Finance. They have great control over matters concerning finance; (3) Officials of any other ministry concerned with the enterprise; (4) any member from the participating states or collaborators, if they possess such a right; (5) there may be a member from outside non-officials, mainly industrialists; (6) a member with technical knowledge or experience in any particular problem concerning the enterprise may be appointed; (7) there may be a member representing labour interest in general; (8) the Managing Director and/or the General Manager holding overall charge of the concern is appointed, usually, though not necessarily,
by the ministry or the President of India, as the case may be, and not by the Board.

Thus the Board is dominated by officials representing various ministries in their ex-officio capacity. Such a board cannot be homogeneous. It cannot have any consistent and continued policy because the ex-officio members are frequently changed as and when they are transferred or leave their posts or for other reasons. Further, the Managing Director and/or the General Manager is frequently changed which is not very conducive to efficiency. This also affects the sense of responsibility and the incentive for economy.

The powers of the Board of the state-owned companies in India are much restricted in a number of ways. There is a general reluctance to delegate powers to the Board and the Board to the Managing Director. This impairs efficient functioning and quick decisions. Above all, the officials lack desire, willingness and courage to act freely even in the area of their authority. They have a tendency to shift responsibilities for any decision to their ministries.

The working of various companies shows that the boards have not been effective, efficient and economical. According to the Estimates Committee, "The Directors ... have not been fulfilling useful role...Nothing of importance
either from the point of government or from that of the undertaking has been done by them." The Comptroller and Auditor General of India observes, "The purpose of adopting the company form of management was to give these undertakings flexibility of operation and to free them from the application of rules and regulations framed for normal activities of the administration. The purpose has now come to be largely defeated since the control of the enterprise has been placed in the hands of permanent officials who are nominated to the board of directors. A few nonOfficials have also been appointed to the boards, but they are in minority; they have, further, no financial stakes in the companies and are largely unconcerned with their efficient administration. The non-official directors drawn from trade and industry are not generally in sympathy with the policy of nationalisation; they concern themselves mainly with safeguarding the interests of industries in the same fields of production. The official members representing various ministries look to their ministers for direction, and matters brought up before the Board are often reserved for further considerations by the government. Nor have the managing directors been given power and authority commensurate with their responsibilities or even comparable to those vested in managing directors of private enterprises. The cumulative

effect of these arrangements has been to make these companies move even slower than government departments, although quick decision and speed are essential for their efficient operation."

Legal Ambiguities

Another defect is the dissemination of scanty information about the activities of the company for public knowledge or refusal to supply information about them. For instance, the Minister refused information on the Sindri's on the ground that "he, as a shareholder, had no absolute right to obtain it." This provoked criticism in the Lok Sabha that each company "has become an 'imperium in imperio' - small kingdom, completely assigned to, shall we say, the overlordship of the officer who happens to be the Managing Director or Chairman."  

Many provisions of the Companies Act do not serve much purpose in the context of public enterprises, e.g., provisions stipulating the holding of annual general meetings and requiring notices and returns to be filed with the Registrar of Companies. The Articles of Association of the Government companies contain a number of provisions

2. Dr. Lankasundaram, Lok Sabha Debates, 10 December, 1953, Co.1918.
3. Dr. Lankasundaran, Ibid.
for transferring, making calls on and forfeiture of shares, and imposition of penalties which have hardly any significance. In India state-owned private limited companies, the entire share capital is owned by the Government of India in the name of the President except where a part of the share capital is allotted to some state government, or the collaborator supplying the technical know-how, but their share is normally nominal. In addition, to fulfil the legal requirements, one or two shares are held in the name of the officials. Being the sole shareholder, or a substantial shareholder, the President, working through the Ministry concerned, has the right to appoint all members barring a few nominated by other interests, if any. The function of the shareholders rest with the ministry concerned. In this capacity, the ministry exercises the ultimate control over the whole functioning of the company. Thus the organisation is company type only in form and law, but is sole proprietorship concern in actual practice.

Another example of the asymmetry between joint stock companies in the two sectors relates to the concept of limited liability. This principle has a purpose under the private enterprise. It safeguards a shareholder, whose interest may be limited to a safe dividend and who has neither the time nor the capacity to satisfy himself that
the company's affairs are absolutely in order, against the possibility of being called upon to pay towards the defaults or disaster of the company over and above the face value of the shares for which he has undertaken responsibility. If ever the company goes in such a bad position that its available funds are adequate to fully pay the creditors, the company is declared insolvent and the shareholders are not held liable to the creditors of the company for the losses suffered by them. The principle of limited liabilities does not have much relevance to a public undertaking because it will not be worthy of a government to write off payments to creditors taking advantage of the principle of limited liability.

Under section 620 of the Companies Act, the government is empowered to exempt any Government company from the operation of any provision of the Act. Hardly any use has been made of this section so far. Full use should be made of this Section to reduce to the minimum the provisions of the Companies Act which are to be applied to the government companies since most of their affairs are in any case controlled by the government. The actual provisions to be applied to a government company would have to be determined specifically in each case.

The organisation of public enterprises "as companies only reduced their accountability to the audit authorities
appointed under the Constitution and to the legislature."¹

In the opinion of the Estimates Committee the propriety of earmarking separate sums from the Consolidated Fund for a large number of public undertakings in the shape of companies, and putting them out of reach of normal Parliamentary control on expenditure on the ground that the undertakings are autonomous entities is open to question.² The ESCAPE Seminar stated two important reasons against the company form of public enterprises:"(1) The company device evades the Constitutional-responsibilities which a state controlled enterprise has, in a democratic society, to the government and to parliament; (2) The use of company form and of the law regulating commercial companies usually becomes a mere fiction because all or most of the functions normally vested in the shareholders and in the management are reserved to the government by the statute setting up the company."³

The company form of organisation has been sharply criticised by the Auditor General of India, "These private limited companies are, in my opinion, a fraud on the Companies Act and also on the Constitution, because money cannot be taken away from THE CONSOLIDATED FUND for the establishment and transformation

of certain concerns into private companies in the name of the President and Secretary to Government ... Further, to convert a government concern into a private company solely by executive action is unconstitutional."¹

The Companies Act, 1956, has considerably improved the situation and many criticisms originally levelled against the company form have lost their force. It defines a government company as "any company in which not less than fifty-one per cent of the share capital is held by the Central Government, or by any state government or governments, or partly by the Central Government and partly by one or more State governments."² It provided for the power of Comptroller and Auditor-General of India to direct the manner of the company's audit and to conduct also a test audit.³ It empowers the Central Government to suspend or modify any of the provisions of the Act as necessary.⁴ In doing so the Central Government is to place a copy of the draft notification regarding modification of the company law before both Houses of Parliament not less than thirty days before its issue for approval of both the Houses. The Parliament then gets the opportunity of examining the case.

¹ Statement made by the Auditor-General to the Sub-Committee of Public Accounts Committee on 13 December, 1952, and quoted by Dr. Lankasundaram, Lok Sabha Debates, 10 Dec., 1953, Col.1915.
² Section 617, Companies Act, 1956.
³ Section 619 (3).
⁴ Section 620 (1)
In fact, there is need for a special Act of the government as in various other countries like Canada, Sweden, etc., prescribing a code of conduct and providing that all the Government industrial and commercial enterprises have to be incorporated only under the Act. "What is essential is not that public enterprises should be fitted into an existing act but that proper legislation must be promoted for governing the public enterprises."¹ Shri Morarka suggested that "there should be a convention that before a company or a public corporation is actually floated, the minister concerned or the ministry must come before the House of Parliament and justify why they want to entrust a particular activity of government to that company or corporation. The House must be taken into confidence and must also be called upon to pass or give its consent by means of a resolution saying that the Minister or Ministry is authorised to float that company and entrust that particular activity to that corporation."² This is essential because "the moment a company or corporation is floated, a certain activity and a certain amount of finance is taken away from the purview of the House and the purview of the Comptroller and Auditor-General, and the service people employed in that company or corporation are taken away from the purview of the Public Service Commission."³

3. Lok Sabha, Debates, Ibid.
The Estimates Committee recommended that all wholly state-owned public undertakings should generally be in the form of statutory corporations, and the company form should be an exception to only (a) when the government may have to take over an existing enterprise in an emergency; (b) where the state wishes to launch an enterprise in association with private capital; or (c) where government wishes to start an enterprise with a view eventually to transferring it to private management. The government, however, did not accept this recommendation on the ground that the "company form was advantageous in that it allowed the flexibility and autonomy necessary for the successful operation of commercial enterprises and also provided for parliamentary control over the companies under the special provisions of the Companies Act."^2

This question was also considered by the Administrative Reforms Commission. Among its most important recommendations was the recommendation about the formation of sector corporations. These corporations are to be formed by combining and integrating existing undertakings operating in the ten major industrial and commercial fields for each of which a sector corporation has been named. This recommendation is based on the detailed inquiry by

the expert study group into the public undertakings which disclosed that "the establishment of a number of individual undertakings of varying sizes, very often functioning in the same field of industry, has led to fragmentation of industrial effor in the public sector." It was mainly to remedy this fragmentation of effort and to attain the highest degree of coordination between akin institutions, that the Commission recommended the constitution of integral corporations. The Administrative Reforms Commission gave in particular four advantages in support of this suggestion. The Commission stated that (a) it will reduce the dimensions of government control as many of the functions that are coordinative per se will be taken care of by the corporation; (b) it will make government control more effective by keeping it confined to a few vital and strategic points; (c) it will help to achieve the economies of large-scale operations and the establishment of otherwise expensive staff organisations and of common service facilities in the field of research and consultancy, training of personnel and sales promotion; and (d) it will lead to better personnel management, uniformity in the terms and conditions of service of employees, wider prospects for the managerial and technical personnel and the development of managerial

resources in the public sector.

To these a few more points in favour of the new proposal might be added. For instance, the sector corporation would help in developing and bringing up strong management institutions in the public sector which are immediate need. Further, the bulk of the investment in the public sector relates to heavy industries and in these areas, as the foreign experience shows, only large and integrated bodies have proved to be commercially profitable propositions. Thirdly, the past experience in the direction of Research and Development (R. & D.) has been lamentable. The modern technology and technological changes require colossal amounts of investments. The requisite dynamism and investments for making the country up-to-date in this regard can be provided by sector corporation. Moreover, the head of a sector corporation could be a better match for the ministerial administrative head in the government than the present whole-time chairman/managing director. While recommending this, the Commission observed that "a sector corporation shall not be allowed to crush under the weight of its autonomy and size of the operation and autonomy of its units" and their setting up "should not result in their functioning as large monopolies in the public sector eliminating competition among units producing a similar range of products or providing similar services." The managerial personality of the constituent units will be

preserved by giving each of them a financial framework within which it is to operate and against which its performance is to be evaluated; to facilitate this and to help infusing a spirit of healthy competition in the matter of reducing costs and increasing productivity in the public undertakings, the budget accounts and performance data of each of the units should be separately compiled.

As against the various advantages ascribed to this particular recommendation by the Commission, there are certain demerits of the proposal. Some of these demerits are: (1) it will interpose yet another level between Parliament, Government and the public undertaking and slow down the speed of operations. It will involve a reduction in the powers of subsidiary units, and the concentration of power with the sector organisations will slacken the formulation and execution of policy decisions; (2) it will be very difficult to find capable persons to head the proposed sector corporations especially when this problem had been acutely felt all these years for successfully running even the existing relatively smaller undertakings. The smaller undertakings would find it even more difficult to attract really talented persons than in the past; (3) as every major sector for which a separate corporation has been suggested has certain distinctive features, it would necessitate the
passing of separate Acts of Parliament which would lead to voluminous legislation; (4) it will mean taking over certain functions like planning, etc., which essentially belong to ministries; (5) a majority of undertakings are governed by provisions of the Companies Act and by Articles of Association framed thereunder, which provide a good deal of flexibility to them. But when separate acts of Parliament are passed, it would become difficult to make changes in the statutes as specific amendments would have to be passed by Parliament which might not be possible to do easily and on time due to pressure on the time of Parliament and due to other difficulties; (6) several undertakings for which sector corporations have been recommended on grounds of uniformity in the nature of their operations, are "polyglot" corporations engaging in totally unconnected lines of activities and as such the working of the sector corporations might become not too smooth as administrative control or direction would come from different ministries; (7) creation of gigantic corporation is based on the assumption that managers of a very high watermark of managerial competence to cope with the range and complexity of the operations involved and to shoulder the enormously increased managerial responsibility exist in the country. This assumption does not seem to be corroborated by actual facts as the top posts in some of the leading undertakings of the country
have in the past not been filled up and the search operations went on for several months; (8) expectations of affecting saving in manpower in managerial and technical echelons in undertakings would be difficult to realise as, notwithstanding the sector corporation, the constituent units would also be required to be adequately manned; and (9) the formation of sector corporations would make the national economy more vulnerable as while at present at least some units which are showing some progress and yielding profits in the normal years, these would also slip down as the policy decisions are likely to be framed on the basis of the experience of marginal units and new standards would have a dulling effect on the relatively better units. Moreover, the enormously increased powers of the corporations is likely to be resented to by the private entrepreneurs who might slacken their own efforts on the production and productivity fronts as they might develop deep fear psychosis from new giants and in the result the national economy would suffer.

The Government turned down the Administrative Reforms Commission's recommendation to form sector corporation on the ground that the company form is more advantageous to public concerns which need structural flexibility and financial autonomy. This question is therefore wide open.
Emerging Pattern of Organisation & Management

It is difficult to pronounce final judgment on the several types of organisation. In fact the controversy revolves around the size of administrative organisation and the degree of centralisation which should exist within a nationalised industry. Sometimes decentralised organisation is advocated in the field of nationalised industry because it tends to increase the opportunities for technical, administrative, commercial and financial experimentation. Sometimes, some great advantages are ascribed to centralised organisation of publicly owned industries to ensure 'public accountability', to permit effective planning of the development and management of the industry in the national interest; to carry out such central functions as capital developments, marketing, research and training, and to effect economies through unification, integration and standardisation. However, one should not aim at over-centralisation because it breeds bureaucracy, causes frustration and inhibits initiative. Decentralisation should be carried forward so long as it is consistent with central control of national policy and planning.

Whatever the pattern of organisation, the problem of internal management are to be faced by all the public enterprises. These problems may be of two kinds - those
arising from factors external to the enterprise and those relating to factors within the enterprise itself. Problems arising from factors external to the enterprise are generally those relating to plant location, size, layout, and availability of resources. Management problems within the enterprise can be broadly classified under three heads:

(i) structural (i.e., relationships between the Managing Director and the Board on the one hand and between the Managing Director and his departmental heads on the other);

(ii) procedural and supervisory (i.e., operating procedures, direction and supervision, use of staff agencies and internal communications); and

(iii) personnel (i.e., training programmes, assignment of duties, personnel relations and pay systems).

The management organisation must be structured to achieve the maximum long-term return on the investment consistent with (a) strengthening the marketing and technological position, (b) providing the community with products that are competitive in price, quality and service, and (c) ensuring the efficient and socially responsible utilisation of human resources. Within these broad objectives, management must set for itself long-term and short-term objectives.
In the long-term, management must develop the skills and promote the investment and technological advances needed to maintain and improve the role of public sector as a key factor in the growth of Indian economy. To achieve high productivity, management must carve out a path of constructive role for trade unions through improved consultation and negotiation machinery. It will permit highest productivity commensurate with fair employment practices and social responsibilities of public enterprises. While a competitor in the field of its activity, public enterprises must work towards cooperation with private sector for improvement of trading conditions, and move towards the development of large production units to enhance competitiveness in the world industry but with full recognition of the part that efficient small enterprises in the private and public sectors can play and of all the social implications of any changes. To this end, short-term objectives which would be achieved are: (i) to form all the companies into groups to establish immediate and effective management control of the public sector as a whole; (ii) to set up the management organisation structure and the planning and control system needed to manage the new groups effectively, independent of bureaucracy; (iii) to develop and to implement, as soon as possible, planned programme for achieving the most efficient use of human and other resources; (iv) to reduce costs, and particularly fixed costs; (v) to
improve productivity by achieving the most efficient manning, in cooperation with the trade unions; (vi) to review and improve marketing arrangements so as to increase the volume and profitability of sales, including export; and (vii) to establish and maintain good relations with the private sector.

In fact there must be decentralisation subject to the conditions laid down above as well as coordination. The executive development programmes and modern supervisory procedures have to be introduced. There must be proper utilisation of staff agencies, and the arrangements for internal communications must be based on human approach; the personnel administration programme must be intelligent and progressive; and adequate use must be made of modern accounting systems and operational statistics.

The above analysis of the objectives gives rise to some thoughts on the future form of management organisation which I venture to sketch below.

(a) The Board

For the effective and successful operation of public enterprises, the importance of governing board can hardly be exaggerated. The board is the spearhead of the public enterprise. It should be much the master of the enterprise as it is the servant of the public. For the former it is responsible and to the latter it is accountable. The board must be
the ultimate authority, instead of the ministry, to look after a group of companies. The success or failure of the national undertakings largely depends on the quality of the board, for, from this flow all the decisions on policy and administration which make up good or bad management. In this context, Professor Farooque emphasises the composition of the board in these words: "Balanced boards representing diversified talents to take a long range point of view are essential for the successful working of our public enterprises."1 Gorwala Committee made two broad statements with regards to the membership of the public undertakings. Negatively the composition of the board should not be such as to obscure the essential conditions of autonomy. It should not give rise to overlapping of responsibility or result in the introduction of control and interference by the backdoor. Positively, the composition of the board should be such as to subserve only one purpose, that of good and efficient direction in the public interest. These observations by the various committees appointed by the Government and the eminent thinkers reveal dichotomous approach of the government in composing the board. I recommend that the board, to function effectively, must be collectively responsible under the legislation for the conduct of the activities under the control of the

The board’s direct responsibilities must include: (i) to set overall policy objectives for the corporation; (ii) to review and approve strategic plans for achievement of these objectives; (iii) to decide on entry into new fields of activity; (iv) to approve development and annual operating plans; (v) to approve or delegate the authorisation of all capital expenditures; (vi) to approve major organisational changes, subject to any ministerial consents, required; (vii) to approve, or delegate approval of, senior appointments; (viii) to keep under review general policies of employment; (ix) to deal with matters of policy affecting ministerial and governmental relations; and (x) to take decisions on all matters not delegated by the board.

For the foregoing matter, the board, presided over by the Chairman (who must not be a civil servant), must reach appropriate decisions and conclusions, subject to statutory constraints and to the powers reserved to the minister.

For a balanced board, capable of discharging the above responsibilities, selection of the members should be wide-ranging from amongst the private industrialists who subscribe to the philosophy of the public sector, bankers and financiers, engineers, technicians, cost accountants and auditors, trade unions, university
teachers and institutions of higher learning and research. Guiding principle should be such as to select those who are not opposed to the public sector and can act with zeal and devotion to attain the objectives of public sector enterprises.

(b) Committees of the Board To facilitate the effective and speedy conduct of the board's business, committees of the board must be established to consider and report on certain matters, to make recommendations, or within prescribed limits, to take decisions on the board's behalf. To begin with, two committees of the board may be constituted, viz., (a) Planning Committee, (b) Finance Committee. These committees must be chaired by the chairman and the deputy chairman. Membership of these committees should be confined to board members and managing directors who should be non-official.

The Planning Committee should recommend to the board plans for the maintenance and development of the corporation's principal activities. The Finance Committee should (1) recommend financial policies for the approval of the board, approve financial programmes and procedures, and receive reports on the implementation and monitoring of these policies, (2) advise the chairman on the financial resources available to the corporation and on the deployment
of these resources, (3) control on behalf of the board the authority to enter into all financial commitments (including capital expenditure and disposal of fixed assets) in name of the corporation or any of its subsidiaries, and (4) approve or submit to the board for approval all consolidated budgets, forecasts, annual operating plans, annual investment reviews and similar documents.

The Chairman

Role of the chairman should be given to the Deputy Chairman. And the Chairman should be left free to concentrate on the initiation and development of policy, external relations, future planning, provision of finance and financial policy. It should be the responsibility of the Chairman as such to implement the decisions of the board, to use such advice and assistance from the members of the board and the corporation's staff as he deems fit.

There should be at least two internal committees to deal with appointments and management development. They must advise the Chairman/deputy chairman. One must deal with appointments and salaries, and the other with management development, that is, it must review the corporation's management resources and arrangements for career planning.
The Chief Executive  

The Chief Executive must be responsible through the chairman to the board in the conduct of the corporation's business within the board's policies. The board should delegate to the chief executive responsibility for the executive management of the corporation and for the implementation of the board's policy on matters which are not retained under its direct control. The Chief Executive may control directly the Product Divisions and subsidiaries.

The chief executive's advisory committee of which all the functional and divisional managing directors should be members must provide the principal forum at which the chief executive can have consultation about the current management of the corporation.

The Deputy Chairman  

There should be two deputy chairmen to be nominated by the minister after consultation with the chairman. They should not be given executive responsibilities for particular product divisions of the corporation. With a view to promote the integration of the various functions and product divisions, the deputy chairmen should be delegated areas of responsibility relating to different aspects of the corporation's overall activities, each of which should embrace several functions and product divisions. One deputy chairman, who should also be the
chief executive, should supervise the preparation and monitoring of the annual operating plans of the various parts of the corporation. The other deputy chairman should be mainly concerned with the government and international aspects of its affairs, if this be an exporting corporation. In addition to the chairman, the deputy chairman and the chief executive, there should be at least two full-time members on the board, with responsibility to contribute to strategic planning and corporate policy. They should have strong functional links with the corresponding parts of the chief executive's organisation, which should be responsible for the conduct of the corporation's business. They should deal with much of the work of external relations in their respective areas, thus enabling the functional and divisional managing directors to concentrate on running the actual business.

**Managing Directors**

There should be at least six functional managing directors, in charge of commercial, finance, operations, supplies and transport and technical divisions. They should report to the chief executive to advise on and recommend policy, programmes and procedures on all matters relating to their functions. In practice, they should also exercise, in specific and precisely defined fields,
executive responsibilities delegated to them by the Chief Executives; for example, the responsibility to control and coordinate certain matters on a unified corporate basis. In the field of finance, the control and coordination can be in respect of, for example, the development of standard costing systems, the control of capital expenditure and the financial assessment of plans and capital expenditure proposals.

The functional managing directors should be responsible for (i) developing policies for the approval of the board or the chief executive, as may be appropriate, (ii) for implementing these policies when specifically required to do so, or for devising programmes and procedures for their implementation by the managing director of the product division, (iii) for providing, as head of a specialist sector of the corporation's organisation, technical or specialist advice and services to the other Head Office and the product divisions, and (iv) for monitoring and coordinating all activities within their functional spheres throughout the corporation, stimulating their development and ensuring that corporation's policies, programmes and procedures are observed.

Product Division

Product division should be looked after by a Managing Director. Each product division should operate as a
profit centre under its managing director who should be personally responsible to the chief executive for running his division. Each managing director should be assisted and advised by a divisional board consisting of divisional line and functional directors and also part-time non-executive directors, including both employee directors and other persons experienced in such fields as local affairs, education, industry and commerce. Each managing director should have directly responsible to him the line directors of groups of works, the number of which would vary according to the size and nature of the particular division. He would have functional directors reporting to him, with responsibilities corresponding to those of their counterparts at Head Quarters.

The organisation of the products divisional head quarters should be similar to that of the corporation's central organisation, in that there should be divisional functional directors reporting to the divisional managing director. The divisional functional directors are to be responsible for (i) the coordination of activities in the division within their own functions, (ii) the provision of divisional management and technical services, and (iii) in particular, for maintaining close contact with the corresponding functional division at Head Office and coordinating and monitoring the implementation of the relevant corporation's policies, programmes
and procedures.

The divisions should have divisional directors responsible for the finance, commercial personnel and social policy, operations and technical functions. The director of finance should be usually responsible for administrative matters other than information services which should be the responsibility of the commercial director with close liaison with the personnel functions for internal communications. In all cases where there is to be some departure from uniformity in the allocation of responsibility, the location of responsibility and the lines of communication between the Head Office and the divisions and between divisional Head Office and works groups should be precisely defined to ensure that clear lines of communication between the Head Office and the divisions exist in these areas.

The ways in which these clear lines should be established are through detailed job descriptions for individual posts showing exactly who should be responsible for what, an organisational manual to be issued summarising the allocation of responsibilities by subject-matter and the system of advisory committees which should ensure that the individuals across the corporation, responsible for the same functions, meet together regularly.
Line And Staff Functions

The line and staff functional organisation of management should extend throughout the corporation. The channel of control should be from the Chief Executive through the divisional managing director to the directors of groups of works. The heads of the functional departments should be responsible to the appropriate line executive, for example, the divisional functional director will be responsible to the divisional managing director and the functional managing directors at the Head Office should be responsible to the Chief Executive. It may be noted that the authority of functional managing director has to be quite different from that of the production division managing directors. It is to advise on and to recommend policies, programmes or procedures on all matters relating to his functions which, when appointed by the corporation, should be implemented by the product divisions and all departments at the Head Office. A functional head must ensure by a proper system of report and consultation to be laid down by the corporation that the agreed policies, programmes and procedures are enforced. A functional head, however, should have no line authority over executives in the divisions or lower levels of management other than that agreed to by the divisional managing director. In the event of disagreement, the issue should ultimately be referred to the Chief
Executive, to whom the product division managing director and the functional heads should bear the same relationship. In practice, of course, disagreements may arise to be resolved by consultation between the managing directors and the functional heads.

Individual works of the corporation should be regrouped according to the principal and products supplied by each. With various divisions to cover the wide range of products and diversified products made and sold by the corporation, and with many works producing a variety of these products both for sale and for further processing, a complete grouping of works into precise product categories may not be possible, but it should be catered for by arrangement between the divisions concerned. Initially, existing patterns of production should be retained, but the actual sales of a specific product should be handled entirely by the division to which that product has to be allocated.

The number of works and the variety of specific products to be allocated to each division may be too great to allow a direct line of authority from divisional managing directors to the managers of individual works and within the divisions many of the works may be grouped on a geographical or product basis into management units under a group of works director to whom maximum
managerial authority should be delegated. In some cases these groups should operate as a single integrated unit and profit centre; in others, largely for geographical reasons, they should include a number of works operating as separate management and, in some cases, profit units. This structure should be in conformity with the corporation's principle of maximum delegation of managerial authority.

**System of Control**

The organisation should be based on direct delegation of line authority for day-to-day execution of management policies to divisional managing directors and thence to the managers of works groups, works and departments. Within this organisation, responsibility for coordination should rest with the functional directors and their staff.

By this means divided responsibilities should be avoided and a clear line of delegated managerial responsibility preserved. For such a system of delegated managerial functions and their coordination to be successful corporation policies must be clearly stated, the scope and limits of individual responsibilities must be defined, detailed operating plans for the corporation, for the divisions and for individual works must be agreed and maintained, and there must be a comprehensive and consistent system of reporting on performance at all levels.
Decisions on general corporation policy should be promulgated by the issue of corporation policy documents to give definition of instructions or definitive guidance on the implementation of such decisions. Where necessary these should be converted into approved divisional Standing Instructions to deal precisely with the circumstances in each division and should be augmented in appropriate cases by the issue of instructional manuals by the Head Office functional divisions to deal with detailed procedures where uniformity is necessary, for example, uniform standard costing manual, standard condition of employment, etc.

Definition of the scope and limits of individual responsibility should be effected by the completion of detailed job descriptions for all managerial staff in the corporation. The preparation and approval of operating plans for all establishment in the corporation and the formal monthly reporting against such plans should be catered for by the annual operating plan procedure.

This system of detailed planning and the comparison of actual performance with such plans on the basis of individual responsibility is a key element in the corporation's principles of management. Introduction of the uniform standard costing system and development of the continuous review and monitoring of operating standards of all kinds would progressively raise the efficiency of this system.
and provide a comprehensive instrument of control for management at all levels.

Continuous review and monitoring should be achieved through a small unit in the operations division working in collaboration with the product divisions. Operating standard should be agreed for inclusion in divisional annual operating plans and any variances reported to the chief executive once a month.

Communications

The organisation should be designed to give managers the power of speedy decision in the constantly changing circumstances of a dynamic industry. Such decisions must, however, conform to overall policy at every stage and must be coordinated with a variety of separate considerations to secure the greatest benefits for the corporation as a whole. For this close contacts and effective communications are essential. In a large and diverse organisation, much of the necessary communication must be in documentary form. The system of reporting performance against agreed plans and standards should be designed to contribute to this need by the provision of accurate and suitably analysed data for circulation to the appropriate levels of interest.

To use such data effectively and to coordinate specific programmes and decisions, documentary communi-
cation must be reinforced by personal contacts and consultation. There should be constant and informal contacts between senior management, whether line or functional, both for the corporation as a whole and within divisions.

To increase and formalise the opportunities for such contacts a structure of advisory and consultative committees should be established. These will not only provide a forum at which the responsible executive at both Head Office and divisional level, can with his staff review relevant performances and consult them on current issues, but present an opportunity for personal contacts between those with common interests and for the discussion of common problems.

The key committee in this structure will be the Chief Executive's Advisory Committee at which the Chief Executive shall review with his divisional and functional managing directors the current performance of the corporation and the divisions and also such other managerial issues as he thinks appropriate. At divisional level there shall be similar divisional advisory committees as well as divisional boards. The latter should include employees and part-time directors to advise and assist the divisional managing directors on matters of divisional managing directors on matters of divisional policy and the like. At both Head Office and divisional level suppor-
ting functional advisory committees should be set up to consider and advise the appropriate functional executive on all relevant matters. The timing and frequency of meetings of these committees should be so arranged as to make the minimum demands on the time of those involved.

CONCLUSION

From the foregoing analysis it follows that the Government prefer the company form of organisation because it is perhaps the only form where it can watch both policy and operations; and take the advantage of the parliamentary convention that the Minister is not responsible for the day-to-day administration, a convention developed principally for statutory corporations but extended on analogy to the company form. Nevertheless, close examination of the working of the public enterprises revealed that the existing management had tended to be over-centralised in the hands of bureaucrats who were reluctant to decentralise functions even though justified by economic expediencies. Such practices have led to errors and delays in decisions and operations. Several attempts to reform the management of the public enterprises have been examined by the scholar, including recommendations by the Gorwala Committee and the Administrative Reforms'
Commission, which the government turned down in favour of the company form. The scholar discerns that controversy in most of the cases arises from the size of the organisation and the degree of centralisation and decentralisation. The question will elude any solution until and unless specific objectives are laid down for the public sector enterprises which are conspicuous by their absence. It is, therefore, recommended that the organisation must be structured to achieve the goals of maximum return on their investment consistent with (a) strengthening the marketing and technological position, (b) providing the community with products that are competitive in price, quality and quantity, and (c) ensuring the efficient and socially responsible utilisation of human resources. The public enterprises would not be anywhere within the reach of the above objectives so long as they are not managed and run on sound principles of management. For instance, the process of decision-making should be rationalised, and decisions as far as possible be made on the spot where they occur. Only very costly decisions be made at the level of power, i.e., board of directors. To ensure success of public concerns, the boards must be composed of members drawn from diverse fields such as industry, banking, education and research, etc., and they should be non-officials. Such a board must be collectively responsible for the activities of the corporation and its
constituents to the Parliament, instead of the Minister, under legislation. The board must enjoy powers commensurate with its responsibilities, except in matters reserved to the minister.

Government control over policies and operations should not be rigid. It should provide necessary managerial incentives for cost reduction and timely decisions. The question as to whether the pricing system in our public enterprises is adopted with the objectives of reducing the cost to the minimum and providing goods and services to consumers at competitive prices, quality and quantity is being examined in the forthcoming chapter.