CHAPTER III

ORGANISATION AND MANAGEMENT

* Introduction
* Governing Board
  - Composition of the Board
  - Tenure of the Board
  - Working of the Board
  - Executive Committee
* Chief Executives
  - Chairman
  - Managing Director
* Organisation Structure
ORGANISATION AND MANAGEMENT

INTRODUCTION

Organisation is not an end in itself. It is a means to an end. Therefore, the starting point of any analysis related to an organisation can not, merely be a discussion of its structure. It must start with the analysis of its business. Hence, the first question in discussing organisation must be: "What is our business and what should it be?" The SFC should be understood as an institution whose primary interest lies in long-term financing, along with the developmental activities. It is a hybrid institution whose business is spread over the activities of traditional banking institution and development corporation. The development corporation is, "primarily devoted to the stimulation and invigoration of the national capital market, to the provision of long-term capital and to supply of entrepreneurship including technical know-how and management to the private corporate sector."

The accent of development corporation is on the economic development of the country by supplying the

the missing links in the growth process. It has to act as a gap-filler. It has to provide, "... capital where that is in short-supply; help develop the capital market where available savings are not effectively mobilised; plan, establish and operate business enterprises and help develop the financial infra-structure where enterprise is lacking; conduct techno-economic surveys and feasibility studies and identify, develop and implement projects if opportunities seem to be inadequate; and provide technical and managerial advice and assistance where the same is needed." 3

It is in this context, the performance of the corporation has to be appraised. The organisation, in fact, must suit "Activities - Decisions - Relations" dynamics in order to achieve the fundamental goal of gap-filler in the development process.

GOVERNING BOARD

In any organisation Governing Board is on the top of its structure. The Board represents the 'body corporate' and is directly responsible for the success of the operations. The management of the enterprise is discharged through and to the Board. Thus, the role played by the Board is crucial and needs no lengthy elucidation. In fact, management experts hold the view

3. Singh Dr. V.S., Development Banking in India, 1985, p.20.
that the performance and competitive strength of any organisation will in the long-run reflect the strength and weaknesses of its Board of Directors. There is no doubt that an ineffective board of directors will be at the root of corporate failure. It is, therefore, necessary to have an efficient and effective board in order to achieve goal oriented performance irrespective of organisation belonging to the private sector, public sector or joint sector.

Section-9 of the SFC Act states the role expected of the board of directors. It reads, "The general superintendence, direction and management of the affairs and business of the Financial Corporation shall vest in the Board of Directors, which, with the assistance of an Executive Committee and a managing director may exercise all the powers and discharge all the functions which may be exercised or discharged by the Financial Corporation."

The above referred section, provides broad framework of the duties to be performed by the Board - A clear description of what is expected of a Board is difficult to frame. However, these can be the following, to name a few:

The Board must be capable and strong enough to ensure that the rest of the management is kept at an adequate level of competency;

The Board should be capable of fixing the goals for the company and defining the valid results expected by its constituents;

The Board should be capable of acting conscience keeper for the organisation by fixing value norms for it from time to time;

The Board should be capable of counselling top level managers and acting as their friend, philosopher and guide;

The Board should act as a window of the organisation open to the outside world and for receiving external perceptions;

The Board should act as a channel for intercommunication between the various constituents in the organisation and outside.

What should be the qualities of the people sitting on the Board? Certainly it may be a difficult question to answer. But Peter F. Drucker has very ably described by saying that, "the enterprise does need a review organ. It needs a group of experienced people, people of integrity and stature, people of proven performance capacity and proven willingness to work,
who counsel, advise and deliberate with top management. It needs people who are not part of top management but who are available to it, and who can act with knowledge and decision in a crisis ... "The governing board of directors must represent no one but the basic long-term interest of the enterprise. It must be capable of discharging its function as the review organ and as the supervisor of top management performance." If one is to aim at effective board in terms of matters stated above, it will be difficult to specify completely who would make the ideal directors to sit on them. But it would not be so difficult to decide who would not be suited for functioning as Directors. Various issues related to the Board of the corporation have been studied in detail, keeping in mind the above framework.

(A) Composition of the Board:

Another pertinent point demanding attention is that of the composition of the Board. The composition is very significant since, "the board is looked upon as a group of wise men endowed with acumen and foresight to guide the destinies of the corporation and advise its executives in those matters which ... are nevertheless important enough to be submitted to the judgement of these wisemen."\(^5\) The wisdom of the board depends, to a certain extent, upon the composition of the board members.

5. Peter F. Drucker, Management: Task, op. cit., pp. 539-541. (For detailed account of the basic functions of the Board refer.)

The Board of Directors of GSFC is composed, as specified in Section-10 of the SFC Act, as stated below:

(a) **Four** directors nominated by the State Government, of whom, **one** director shall be a person who has special knowledge of or experience in small scale industries;

(b) **One** director nominated by the Reserve Bank of India;

(c) **Two** directors nominated by the IDBI;

(d) **Three** directors elected by scheduled banks, insurance companies, investment trusts, co-operative banks and other financial institutions;

(e) **One** director elected by other parties who are shareholders of the corporation; and

(f) a Managing Director appointed by the State Government in consultation with and after obtaining advice of the IDBI and the Board.

Thus, the Board is consisting of twelve members.

A study into the composition of Board of GSFC since its inception brings out the following points:

(1) It has a mixed type of board, having both official and non-official members, as well as, elected and nominated members. Out of the twelve directors including
the Managing Director, are nominated, while four directors are elected, thus, having a proportion between nominated and elected members 2:1. Further, out of eight nominated directors, the strength of official directors moves between five to seven while the non-official members ranges between one or two. It has been observed that the number of official members is the highest - seven - out of eight members in the present board.

(2) The high proportion of official directors among the nominated directors can be defended on the ground that this practice would ensure the safety of the huge public investment. Moreover, "it is argued that their accommodation as 'carriers of ministerial briefs' is imperative in the smooth functioning of a government undertaking or in avoiding the policy - administration conflicts at a later stage." 7

This tendency of 'over officialisation' resulting into virtually 'bureaucratisation' is said to be the most dysfunctional to the operational autonomy. This is because of the interference of interested groups through the back door, impairing the objectivity. Besides, it has been observed that official directors, tied to their present organisation, many a time, fails

to evince keen interest in the operations of the corporation because of their inability to spare sufficient time for the purpose.

Considering the above views, it may be suggested that the number of officials should be reduced to the minimum necessary. Further, in order to strengthen the present system of Government nominees, an effort should be made to create a professional cadre of nominated directors who will be whole time employees of the various financial institutions. Such nominated directors will report to the Government and the financial institutions. This would create an effective liaison among the Government, financial institutions and the SFCs.

(3) To make the Board competent, the members must necessary be eminent in their respective fields of activities. The question, if educational qualification should form one of the criteria for appointment of a person on the board, is a ticklish one. The official members are by virtue of their post and no other qualifications are prescribed. The nominated members are selected on the will of the nominating agency and no other qualification is prescribed. "No importance seems to have been attached to the prescription of an academic qualification for the appointment of non-official
members on the boards of many of the public enterprises”\(^8\)
... including GSFC either. Both, the SFC Act and the
General Regulations of GSFC are silent on the issue.
Since the activities of the corporation are developmental
in nature, some suitable qualifications should be
prescribed.

(4) It is commonly found that some of the displaced
or defeated M.L.A.s, or M.Ps, from the ruling party are
absorbed by nominating them on the Board of the
Corporations. The GSFC does not seem to be an exception,
as out of the four members nominated by the State
Government other than the M.D., such member on the
board have had affiliation with the party in power.
Among them, Indubhai C. Patel, Narendra I. Bhuva and
N.P. Makwana are the people known for their political
affiliations with the then ruling party.

In one study it was suggested that, "instead of a
politician, association of an active industrialist with
the Board, not only help the corporation in getting
closer to the business world, but, would also enable
it to arouse greater awareness about its area of
operations.”\(^9\) We go one step ahead and suggest that
the corporation should avoid later generation entrepreneurs

8. Chauhan (Dr.) A.B., Organisation and Working of
9. Sharma G.D., Working of State Enterprises in
Rajasthan, 1975, p.169.
and should have a stronger representation of professionals like management experts, financial analysts and first generation successful entrepreneurs.

(5) What constitutes the excellence of a board of directors, has been extensively studied by Dr. L.C. Gupta. According to him, "the first and foremost attribute of an excellent board is a sufficiently large number of directors who are independent of control by managerial interests. Only then will the board as a whole have a chance to be objective and impartial. How can a board which is servile to managerial interests exercise surveillance over such interests?"  

The position of GSPC in this reference can be noted that there is not a single director who can be termed as independent as each one is representing a particular group. The reason there behind is that it is a legal binding to give representation to various groups on the Board of the corporation. Such representation is no doubt, necessary. But what is more important is to place a right person by the interested group. In this context, the views of Mr. Talwar are to be thought of and tried. He

advocates that, "While considering the composition of a board, we should start with an assessment of the talent input needed at the Board level and then, try to find individuals who can provide these input." If all the nominating agencies give serious thought to this suggestion, the thing would certainly be better.

(B) The Tenure of the Board:

The tenure of the governing board of the corporation should be fairly long to allow the directors to substantially contribute their experiences and expertise. Because of the certainty of term of office, it would provide an opportunity to take bold decisions. This would also help the organisation in assessing the contributions made by the members. Considering all these points, the Administrative Commission's Report on public sector enterprises recommended that the full-time member of the board should hold office for atleast five years.

In case of GSFC, the term of office and retirement of directors is governed by Section-11 of the SFC Act, which is as under:

11. Term of office and retirement of Directors :-

:1: A nominated director shall hold office during the pleasure of the authority nominating him;

:2: An elected director other than a director deemed to be elected under the first proviso to Section-10 shall hold office for four years.

Provided that two out of four directors so elected shall retire at the end of two years after the first election and the other two at the end of four years after such election, the directors so to retire being determined by lot.

It is further provided that no elected director shall hold office for a continuous period exceeding eight years, though the retiring directors are eligible for re-election - General regulations of GSPC prescribed the procedure for determining lots, in case of retirement by lots. Which is as under:

29. Determination by lot of Directors to retire :-

The determination by lot prescribed under the proviso to sub-Section (2) of Section 11 of the Act, shall be made at a meeting of the Board to be held not later than three months before the expiry of the period of two years specified in the said proviso and the result shall be declared immediately thereafter.
An analysis of the tenure of the Board members, except the M.D. and the Chairman, reveals the following points, based on Table III.1.

(1) There has been a quick and high turnover in the membership of the Board. The State Government, for the position of three nominated directors other than chairman, has nominated as many as 28 persons during the period under study. Notably, some of the directors did not enjoy the position even for one year. This is evident from the fact that Shri Indubhai C. Patel who was nominated on Board in January, 1980, resigned in October, 1980, serving the corporation only for nine months. In his place, Mr. Narendra I. Bhuva was nominated who also had resigned in March, 1981 serving for less than six months. This has, undoubtedly, denied the corporation, the benefits of continuity in administration.

(2) As per the requirement of the SFC Act, among the State Government nominated directors, one director should be a person who has special knowledge of or experience in small scale industries. It has been the practice of the state to nominate the Director of Industries/Commissioner of Industries for the post. The highest turnover has been observed in this category. The corporation has seen as many as twelve persons in the category. Even within a year, the changes are frequent.
## Table: Tenure Statements of Board Members

<table>
<thead>
<tr>
<th>YEAR</th>
<th>Nominees nominated by the State Govt.</th>
<th>Two members other than one Expert nominated by the RBI</th>
<th>Member nominated by ISLI/IFCI</th>
<th>Member nominated by scheduled banks</th>
<th>Other Fin. institution shareholders</th>
<th>Other Fin. institution shareholders</th>
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* Indicates member of executive committee
Shri S.J. Koelho hold office from 3-9-63 to 31-3-64 only. During the year 1972-73, two persons were nominated. Mr. M.P. Parekh was nominated in March, 1990 and remained in office upto Nov. 1980. On further analysis, it was found that the main reason for such a high turnover has been the transfer from the post.

(3) In case of directors nominated by the RBI, good stability has been observed. During the span of twenty-nine years of operations, the RBI has nominated eight directors including the present one, of which, one change was of a mandatory nature because of the retirement of Mr. B.V. Pandit from the service.

(4) Before the birth of IDBI, the IFCI has representation on the Board. During the period 1960-61 to 1971-72, only four directors were nominated by the IFCI, showing good stability. From the year 72-73, the IDBI was nominating one director in place of IFCI. Due to the amendment made in the SFC Act in 1975, the IDBI was empowered to nominate, now, two directors instead of one. In this category also it was observed that considerable stability is maintained.

(5) In case of elected category, the directors elected by the co-operative banks always remained in the office for the full term and were reelected to the office on the expiry of the term. During twenty eight years of
the life of the corporation, it was served by only four directors. A similar trend of continuity has been visible with regard to the office of the directors elected by the schedule banks and other financial institutions. It is interesting to note that two members of the Board Shri R.T. Popawala and Shri P.V. Gandhi representing co-operative banks and scheduled banks respectively, served the Board for eleven years from the birth of the corporation.

(6) In case of directors elected from the other shareholders, prominent industrialists like — Navnitlal Shodhan (for 7 yrs.), I.P. Shal (for 8 yrs.), Arvind Narottam Lalbhai (for 4 yrs.), Ajay Chimanbhai (for 5 yrs.) had been on the roll of the corporation.

Thus, it may be inferred that in comparison to the nominated directors, the elected directors have enjoyed a fairly longer tenure of office. Further, among the official directors, those appointed by virtue of their post, tends to have served the corporation for a shorter period. In this context, it can be suggested that, the ex-officio member once nominated should continue in the office for a minimum period of one year even if he is transferred to other department/place.
Working of the Board:

The effectiveness of the Governing Board's control over an undertaking depends largely on the number of meetings held to formulate policies, strategies and to review the progress made in the light of set objectives. More frequently they meet, certainly more would be the involvement of the directors in the activities of the corporation. Section-19 of the SFC Act provides that the Board shall meet at such times and places and shall observe such rules of procedure in regard to transaction of business at its meetings as may be provided by the Regulations made under this Act. The detailed procedure has been laid down in the Sections-37 to 42 in Chapter-VI of the General Regulations of the corporation. As per the provisions made in it, a meeting of the Board shall be held at least once during each quarter of the financial year.

Regarding attending the meetings of the Board Section 19, sub Section 3 (A) and 3 (B) states that, "if for any reason a nominated director is unable to attend the meeting of the Board or Executive Committee, a nominating agency (State Government, the RBI or the IDBI), may depute any other person to attend the said meeting and such person shall, for all purposes of the said meetings, be deemed to be a director."
interpreted this provision, it makes a very queer reading as how such an adhoc replacement can make any fruitful substitution. Fortunately, no such incidence took place in the history of GSFC.

Details regarding number of meetings of the Board held during each year have been presented in Table III.2. The following conclusions have been drawn:

(1) The number of board meetings held during a year, are fluctuating. The lowest number of meetings being 9 during the year 1962-63 and the highest being 20 during the year 1981-82 and 1983-84. The average number of meetings held during the period, comes to 14 meetings a year.

(2) About the adequacy or otherwise of the number of meetings held in a year, it would be absolutely arbitrary to comment since the number of meetings are dependent on number of loan applications for which the sanction of the board is required and other business to be handled. However, frequent meetings would expedite the process, since half of the business of the Board meeting was found to be pertaining to sanction of loans.
<table>
<thead>
<tr>
<th>Year</th>
<th>No. of meetings</th>
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<td>1960-61</td>
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<td>1988-89</td>
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<td><strong>Average</strong></td>
<td><strong>14</strong></td>
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</table>

(3) Two novel experiments made by the corporation needs special mention.

One: Instead of convening the meetings at Head Office of the corporation, a novel experiment of holding them at important industrial centres and underdeveloped areas was decided in the year 1962-63 and was put into practice during the years 1963-64 to 1968-69. This certainly helped the state in boosting-up the industrialisation process. The practice enabled the members (a) to have an on the spot idea about the progress of the loanee units, (b) to observe the overall development of different industrial units surrounding the area, and (c) to acquaint the prospective entrepreneurs with the services rendered by the corporation.

Two: An arrangement was made between the corporation and the GIIC, whereby, the MD of both the organisations were co-opted to attend the board meetings on a reciprocal basis. This practice was introduced in the year 1968-69, with a view to have an exchange of ideas and coordination of the functions of both the corporations. The same practice was adopted for the Chief Executive Officer of GIDC from the year 1970-71. Both the arrangements worked well till 1980-81, when Inter Institutional Group was formed and the old system was given up.
(4) The Governing Board is the brain of the corporation. The majority of the time of the Board, should be devoted to the key, strategic matters. While visiting the secretarial cell of the corporation, an attempt was made to have a quick look on some of the agenda papers of the Board. The exhaustive study could not be undertaken because it was not permitted by the corporation in the name of secrecy. The following observations are worth mentioning here:

(a) The agenda papers are extremely bulky running into 300 to 400 pages. Surprisingly, it was found that relatively petty personnel matters like — fixation of TA and DA, reimbursement of medical expenses require sanctions of the Board. In this connection observations once made by Mr. Bhaya holds true. He observed, "In the State Government undertakings where delegation is limited, the agenda is full of administrative trivial. Inevitably, the result of such crowded agenda is that larger corporate issues which need presentation, review and deliberations are often totally ignored or relegated to reports and statistics to be read at leisure." The Board should delegate such routine matters to the Head of the Personnel and Administration Department, for appropriate decision making.

(b) The following eight types of monthly cumulative and previous year, statistical information is put before the Board:

(i) Comparative position of the operations of the corporation for the year and the previous year. (Applications sanctioned, sanctioned to small units, backward areas, refinance etc.)

(ii) Summary of loan applications received and dealt with including those pending, rejected ones;

(iii) Summary of amount-wise distribution of loan sanctions;

(iv) Details about loans sanctioned under various specific schemes;

(v) Gross loan sanctioned to backward districts and other districts;

(vi) Summary statement of disbursement by region-wise, number-wise and amount-wise;

(vii) Review regarding refinance operations. (applications submitted to IDBI, refinance sanctioned, refinance repaid etc.);

(viii) Recovery statistics for the month, cumulative, by regions against target etc.
From the above information, it seems that there is no importance attached to profit reporting system either on a monthly or even a quarterly basis. Profit reporting appears only in the profit and loss account on an annual basis only. Another important eye-catching point is reporting regarding default management, categorical information regarding the extent of default, reasons for default, plan proposed for the safeguard of the funds of the corporation etc. should regularly be put before the Board so that effective steps can be suggested by the Board. Thus there is a need to strengthen the management information system of the corporation.

Looking to all the matter stated above, in order to carry out the operations most objectively, there is a need to have a periodic management audit of the corporation. It is "an internal, independent, and intermittent appraisal of management functions performed in achieving the specific continuing objectives of the organisation."13 The corporation may adopt quinquennial management audit for the following purposes:

(a) identifying the areas of strengths and weaknesses of the corporation;

(b) highlighting the factors affecting the performance of the corporation; and

(c) suggesting alternatives, remedial and corrective measures, to improve the effectiveness of the performance of the corporation.

(A) **Executive Committee**:

Section-18 of the SFC Act provides for the composition of the Executive Council. Before the amendment was made in the SFC Act, in 1975, the Executive Committee was composed of four members including the M.D. as its chairman. The other three members were drawn, each from the members representing (1) Co-operative banks, (ii) State Government and (iii) R.B.I. The latest amendment which came into force from 1975-76, made the following changes:

(1) The Executive Committee shall be of six members including the Managing Director who shall be the chairman of the committee and the other five directors chosen as follows:

(a) Four directors elected from amongst the nominated directors, of whom, two shall be the directors nominated by the State Government and the other two from amongst the directors nominated by the RBI and IDBI.

(b) One director elected from amongst elected directors.
(2) A director elected to be a member of the Executive Committee, shall hold the office till he holds the position of the directorship.

Regarding the business to be transacted by the Executive Committee, Section-20 of the Act states that the executive committee may deal with any matter which may be entrusted to it by the Board from time to time. The minutes of every meeting of the committee, shall be laid before the Board at the next meeting, following it. Regarding convening the meeting of the Executive Committee, Section-28 of the General Regulations of the corporation provides that the Executive Committee shall ordinarily meet at least once in a month. Two directors shall form a quorum for the validity of the business transacted at the meeting.

Details regarding the tenure of the members of Executive Council are depicted in Table III.1. In Table III.3 number of meetings of the executive council held during each year have been presented. The following observations have been made:

:1: Wide fluctuations have been found regarding the meetings held during a year, the lowest being 9 meetings in the year 1962-63 and 1964-65, while the highest were 27 meetings in the year 1971-72.
<table>
<thead>
<tr>
<th>Year</th>
<th>No. of meeting</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960-61</td>
<td>N.A.</td>
</tr>
<tr>
<td>1961-62</td>
<td>12</td>
</tr>
<tr>
<td>1962-63</td>
<td>9</td>
</tr>
<tr>
<td>1963-64</td>
<td>10</td>
</tr>
<tr>
<td>1964-65</td>
<td>9</td>
</tr>
<tr>
<td>1965-66</td>
<td>11</td>
</tr>
<tr>
<td>1966-67</td>
<td>11</td>
</tr>
<tr>
<td>1967-68</td>
<td>11</td>
</tr>
<tr>
<td>1968-69</td>
<td>16</td>
</tr>
<tr>
<td>1969-70</td>
<td>12</td>
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<tr>
<td>1970-71</td>
<td>18</td>
</tr>
<tr>
<td>1971-72</td>
<td>27</td>
</tr>
<tr>
<td>1972-73</td>
<td>27</td>
</tr>
<tr>
<td>1973-74</td>
<td>24</td>
</tr>
<tr>
<td>1974-75</td>
<td>28</td>
</tr>
<tr>
<td>1975-76</td>
<td>26</td>
</tr>
<tr>
<td>1976-77</td>
<td>16</td>
</tr>
<tr>
<td>1977-78</td>
<td>14</td>
</tr>
<tr>
<td>1978-79</td>
<td>15</td>
</tr>
<tr>
<td>1979-80</td>
<td>13</td>
</tr>
<tr>
<td>1980-81</td>
<td>15</td>
</tr>
<tr>
<td>1981-82</td>
<td>16</td>
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<tr>
<td>1982-83</td>
<td>19</td>
</tr>
<tr>
<td>1983-84</td>
<td>18</td>
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<tr>
<td>1984-85</td>
<td>18</td>
</tr>
<tr>
<td>1985-86</td>
<td>18</td>
</tr>
<tr>
<td>1986-87</td>
<td>15</td>
</tr>
<tr>
<td>1987-88</td>
<td>15</td>
</tr>
<tr>
<td>1988-89</td>
<td>17</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>16</strong></td>
</tr>
</tbody>
</table>

The tenure of the membership on the Executive Committee is related to the membership of the Board. In this regard, high stability has been observed up to the year 1974-75. One Shri Ghansyamdas G. Thakker, served the committee for a total period of 15 years. After the amended Act came into being in the year 1975-76, high turnover has been observed. The main reason found for the turnover, was member ceased to be the Board member.

In case of four members to be elected from amongst the nominated board members, a notable consistency has been observed because of the low turnover of the RBI and the IDBI nominated directors. With regard to the position of the remaining two members elected from the State Government nominated directors, it has been observed that up to first seven years of operations from the year of the amendment in the Act, i.e. 1975-76 to 1981-82, one member was found to be an official representing the office of Director of Industries/Industries Commissioner and the other than from non-official group. The situation got changed from the year 1982-83 onwards and both the members were found from the non-official directors. Shri Dayajibhai Mistry and Shri Rajnikant Vohra were in the committee from the year 1982-83 to 1986-87.
In case of a member to be elected from the elected directors it was observed that the director elected for the membership of Executive Council was from the other shareholders category, for nine years. For two years, it was represented by the elected members of the co-operative bank group, while the present member Mr. B.R. Sethi represents L.I.C. and other financial institutions category. Thus, there was not a single director in the Executive Council from the elected members of the scheduled banks. In order to achieve better co-ordination among the banks and SFCs, if one director is sitting in the Executive Committee, it would be in the fitness of the thing.

Chief Executives

Chief executive shoulders the responsibility of getting the things done. He develops and sets over-all objectives. He makes the basic decisions needed to reach these objectives. He communicates the objectives and the decisions to his management people. He educates these managers in seeing the business as a whole and helps them to develop their own objectives from those of the business. He measures performance and results against the objectives. He reviews and revises objectives as conditions demand. He also makes sure
that future managers are being developed all down the line. He makes the basic decisions related to organisation. It is his job to know what questions to ask his managers and to make sure they understand what the questions means. He coordinates activities within the organisation and the various functional managers. He arbitrates conflicts within the groups and either prevents or settles personality clashes etc. Looking to the long list of the activities and duties referred above, there can be only one conclusion that, "the chief-executive job in every business (except perhaps the very smallest) cannot properly be organised as the job of one man. It must be a team of several men acting together." 14

The corporation has adopted the pattern of a part-time chairman along with a full-time Managing Director as its chief executives. Various issues in this context are discussed.

(A) Chairman:

Section-15 of the SFC Act provides that the chairman of the Board shall be one of the directors, not being the managing director, nominated by the State Government, after considering the recommendations of the Board. He shall hold office for two years or until

its successor is nominated. It is further provided that he is eligible for renomination so long as he remains as director. As in the case of many public enterprises, the Act here too, is silent about the qualifications of the chairman. However, he should be a man with vision and farsightedness and must be able to foresee and take long term decisions, and chalk out the future policies and programmes. His own imaginations, abilities, judgement and expert knowledge will decide the degree and the rate of the progress of the corporation.

The chairman has to preside over the Board meetings and therefore, success of the Board meeting depends on the clarity in the mind of the chairman, the homework done and the manner in which the meeting is conducted. "It is only the chairman and the Managing Director who have taken the pains of going through all the agenda items carefully, and that the other Board members will have read or have views on certain matters only and not on all. In most cases these can be anticipated."\textsuperscript{15}

The tenure of chairman of the corporation has been presented in Table III.4, on the basis of which the following observations have been made:

\textsuperscript{15} Hiten Bhaya, op.cit., p.157.
<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Name</th>
<th>Tenure</th>
<th>Constituency of Directorship</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Amritlal Hargovandas</td>
<td>1-5-60 to 16-8-63</td>
<td>Govt. nominee</td>
</tr>
<tr>
<td>2.</td>
<td>Navnitlal S. Sodhan</td>
<td>17-8-63 to 31-8-67</td>
<td>Elected from other shareholders group</td>
</tr>
<tr>
<td>3.</td>
<td>Balkrishna Harivallabhdas</td>
<td>1-9-67 to 30-4-69</td>
<td>&quot;</td>
</tr>
<tr>
<td>4.</td>
<td>K. P. Shah</td>
<td>1-5-69 to 31-12-70</td>
<td>&quot;</td>
</tr>
<tr>
<td>5.</td>
<td>L.R. Dalal (ICS)</td>
<td>April 71 to 1974-75</td>
<td>&quot;</td>
</tr>
<tr>
<td>6.</td>
<td>B. R. Patel (ICS) (Retired)</td>
<td>1975-76 to 1979-80</td>
<td>&quot;</td>
</tr>
<tr>
<td>7.</td>
<td>M. G. Shah (IAS)</td>
<td>Dec.'80 to Jan. '81</td>
<td>&quot;</td>
</tr>
<tr>
<td>8.</td>
<td>R.D. Shah (IAS - Retired)</td>
<td>Feb. '81 to 4-6-87</td>
<td>&quot;</td>
</tr>
<tr>
<td>9.</td>
<td>B.T. Trivedi (IAS)</td>
<td>5-6-87 to onwards</td>
<td>&quot;</td>
</tr>
</tbody>
</table>

Source: GSFC, Annual Report.
The corporation saw nine chairman during the life of twenty-nine years. During the initial period of ten years the corporation had the non-official members as its chairman. The first four chairman viz. Late Shri Amritlal Hargovandas, Shri Navnitlal S. Sodhan, Shri Balkrishna Harivallabhdas and Shri K.P. Shah were well-known industrialists of repute.

It was from the year 1971-72, that there was a marked deviation from the established policy of nominating non-official member as the chairman, when Mr. L.R. Dalal, ICS, the chief Secretary of Government of Gujarat was nominated as the Chairman of the corporation. It is strange that the corporation discontinued the tradition despite the note worthy contribution of industrialist chairman, as noted by the Ramanujam Committee, "when he is an industrialist, he can bring to bear, on the deliberations of the board, his business acumen, knowledge of industries and its problems, and his contacts with the business community. If both, the chairman and the Managing Director, are officers of the Government, an impression is apt to be created that SFC is only a Department of Government." 16 An interesting reading has been

made by Mr. S.L.M.Sinha, an expert on development banking. He observed, "where eminent industrialists and businessmen have been appointed chairman, the concerned SFCs have made remarkable progress."  

Mr. M.G. Shah and Mr. L.R. Dalal before being Chairman, were the Chief Secretary of Government of Gujarat, while both R.D. Shah and B.R. Patel were retired officers of the Government of Gujarat. Thus it seems that the Government is not giving due importance that the chairman should be possessing applied knowledge of industry, trade and finance. In this connection it is very difficult to reject the views hold by one expert. He says, "it has been established beyond doubt that a Secretary in the Government cannot be effective as a chairman of a public undertaking." The reason there behind is two hats are not likely to worn with grace if they are too extremely unlike. The Government should think positively to revive its old practice.

(B) Managing Director:

Managing Director is the pivot of the enterprise. He is responsible for planning, appraising, co-ordinating, directing and motivating the entire range of activities.

He has to build-up the relations and reputation with the external agencies. He is responsible to the Board of Directors for the continued health and success of the corporation. He is also, chairman of the Executive Committee, by virtue of the position. The importance of such a top executive position has aptly been stated by Allen that, "Leadership of the enterprise must originate here, and the philosophy, attitudes and reactions of the M.D. tend to establish a climate for the entire organisation."¹⁸

Section-17 of the SFC Act provides for the appointment of Managing Director. Accordingly, the Managing Director shall:

a: be a wholetime officer of the Financial Corporation;
b: perform such duties as the Board, may by regulations, entrust or delegate to him;
c: hold office for such term not exceeding four years as the State Government may specify and be eligible for reappointment;
d: receive such salary and allowance and be subject to other terms and conditions of service as the Board, with the previous approval of the State Government, may determine.

The provisions of the Act as well as the General Regulations are silent about the qualifications that the M.D. should possess. The issue of appointing the Managing Director of SFCs, has been treated exhaustively by the R.B.I. appointed working groups.

The Mittra Committee states that, "he should be a person with requisite experience, particularly in the now admittedly technical matter of granting term loans. Perhaps persons on deputation from the State Government, being liable to be transferred according to the exigencies of their service, may not have a sufficiently long innings in the corporation to be able or even willing to formulate and implement sound policies which will only bear fruit over a period of time. In this connection, SFCs may appoint younger men as Managing Director, who would serve longer tenures. It is not advisable to appoint Government officials to these posts, unless they are adequately qualified and can be left undisturbed for at least four years; otherwise, suitably qualified outsiders may be appointed as permanent employees of the corporation." 19

The views of the Ramanujam Committee on this debatable issue are worth to be taken into account:

"The main work of an SFC constitutes what is called Developing Banking, and a successful practice in this

special field calls for a combination of several managerial qualities, apart from some knowledge of working of industrial enterprises, industrial finance, banking and accountancy. A competent Managing Director will have to possess a progressive outlook on development, a capacity for judging men, imagination and tact.... It is not necessary for him to be a technically qualified person in its restricted sense. While some administrative experience would be helpful, the experience of work in an industrial concern or a financial organisation, would assist in bringing to bear on the work of SFCs an awareness of and the measures to be taken to promote industries."

The group suggested that the R.B.I. should prepare a panel of such prospective candidates in consultation with the State Governments. The suitable candidates may be included in the panel, drawn from Government services, the SFCs themselves, the RBI and other term - lending institutions, co-operative banks and other management experts etc. The group also considered the suggestion of setting up a cadre of senior officers of SFCs on an all India basis. This could be a good alternative since it meets the sense of ownership and commitment to the mission of the corporations, which may be generally lacking in an outsider.

With this background, a historical review of the position in the GSFC highlights the following points; based on Table III.5.

1: The corporation during its life span of 29 years had eight Managing Directors. The first two MDs. were persons with banking specialisation prior to joining the corporation. Mr. D.G. Bhuptani was the Branch Manager, UCO Bank while Mr. N.H. Shah, was the manager, Gujarat State Coop. Bank Ltd., before joining the GSFC. Then after, the State Government, deviated from the established policy and started nominating IAS officers, which is still in operation.

Table: III.5

Statement Showing Tenure of Managing Directors

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Name</th>
<th>Tenure</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>D.G. Bhuptani</td>
<td>March '60 to 30-3-63</td>
<td>Branch Manager, UCO Bank</td>
</tr>
<tr>
<td>2.</td>
<td>N.H. Shah</td>
<td>31-3-63 to 3-6-71</td>
<td>Manager, Gujarat State Co-op. Bank Ltd.</td>
</tr>
<tr>
<td>3.</td>
<td>H.R. Patankar</td>
<td>4-6-71 to 25-7-76</td>
<td>I.A.S.</td>
</tr>
<tr>
<td>4.</td>
<td>C.C. Doctor</td>
<td>26-7-76 to 13-3-80</td>
<td>I.A.S.</td>
</tr>
<tr>
<td>5.</td>
<td>A.M. Amin</td>
<td>14-3-80 to 11-3-81</td>
<td>I.A.S.</td>
</tr>
<tr>
<td>6.</td>
<td>K.D. Buddha</td>
<td>12-3-81 to 1-4-84</td>
<td>I.A.S.</td>
</tr>
<tr>
<td>7.</td>
<td>T.R. Agnani</td>
<td>2-4-84 to 7-4-87</td>
<td>I.A.S.</td>
</tr>
<tr>
<td>8.</td>
<td>Balwant Singh</td>
<td>8-4-87 onwards</td>
<td>I.A.S.</td>
</tr>
</tbody>
</table>

Source: GSFC, Annual Reports.
Shri N.H. Shah served the corporation for the longer span of 8 years. Mr. I.R. Joshi, the Secretary of the Corporation, during the term of the office of Mr. N.H. Shah, who went on sick leave, served the corporation, for the shortest period of only 70 days.

It may be observed that except for the first three Managing Directors, no subsequent M.Ds. served the corporation for the complete term of four years.

In the light of the above observations, it may be suggested that the M.D. should be appointed for a tenure of four years. He should not be transferred in between. So that he may take the bold decisions. Further the State Government, may think of appointing the MD on an open selection basis instead of relying on IAS officers only. This would certainly help to select a right persons fit for the job.

Organisation Structure

Organisational structure is an intentional arrangement and interrelationship of the component parts and positions of a concern, with a view to make it fit with its objectives, its resources and the environment. Since the resources and the environment are constantly changing, no enterprise can have a static organisation structure. The existing structure
depicted in Chart III.1 and III.2 can also be viewed as a result of the exigencies of the situation like change in the volume of operations etc.

The present organisation structure of the corporation is based on the combination of function, size and type of loan requirements. Obviously, the chairman holding the top position in the administrative set-up is accountable to the Board of Directors. The Executive Committee having a delegated authority, enjoys a paralleled status with that of Board. The Managing Director, a full-time, Chief Executive Officer (CEO) holds the next position in the hierarchy. Top Management Team (TOPMAT), a forum of senior executives, meets under the chairmanship of MD for exchanging views on matters concerning various departments of the corporation. The forum is also used for co-ordinating the activities of different departments of the corporation.

Five functional heads, the GM (Appraisal), GM (Finance), Jt. GM (Recovery), Secretary (Board) and Jt. GM (Personnel & Administration) report directly to the M.D. The next organisational hierarchy, below the functional heads, consists of 13 senior officers of which five are Dy. G.M., two Jt. G.M., Manager (One) and five regional managers. The reporting relationship of the different persons are as under:
CHART: III.1 EXISTING ORGANISATION STRUCTURE OF GSFC

Board of Directors

Chairman Managing Director — Executive Committee

TOPMAT

G.M. (Appraisal) G.M. (Finance) Secretary (Board) Jt.G.M. (F&A) Jt.G.M. (Recovery)


Manager(PS) Manager(PS) Manager(PS) Manager(PS) Dy.GM(PS) Dy.GM(PS) Dy.GM(PS)

Bhavnagar Ahmedabad Baroda Rajkot Surat Legal Fisheries

PS = Post Sanction
SLD = Small Loan Division
EXISTING REGIONAL STRUCTURE

R.M® = Regional Manager.

Jt. G.M. (Recovery)

R.M. (Baroda)

R.M. (Ahmedabad)

R.M. (Surat)

Dy. M. Kutchh

Sub. R.M. Surendranagar

Sub.Inspector Amreli District

Sr.Inspector Veraval

Sr.R.M. (Rajkot)

Sub.R.M. Junagadh

Field Office Bombay

Sub.R.M. Bulsar

Sub.Inspector Jharkhand

Sub.R.M. Bhavnagar

Sub.R.M. Surat

Jt.M. Kheda

Jt.M. Panchmahal district

Sub.R.M. Surendranagar

Dy. M. Kutchh

Sr.Inspector Mehsana

Sr.Reg. Office Mehsana

Sr.Inspector Kutchh

Sub.R.M. Jamnagar

R.M. (Shaheragar)

Dy. Manager Panchmahal district

Dy. Manager Faisalabad district

Dy. Manager Faisalabad district

Dy. Manager Faisalabad district

Dy. Manager Faisalabad district

Dy. Manager Faisalabad district

R.M. = Regional Manager.
Two Deputy General Managers are reporting to GM (Appraisal), one, handling small loan Division (SLD) and the other, looking after the remaining loan-sizes. In turn, he is assisted by Managers and Joint Managers.

The General Manager (Finance) has two Jt. General Manager. One reporting on legal matters except legal recovery and the other on planning and business development function. The Manager (Disbursement and Insurance) is authorised for a loan size above Rs. 5 lacs. The Deputy General Manager (Accounts) looks after the resource planning, accounting and EDP cell. He is assisted by four managers, each with a separate function. A separate EDP cell has been created to make effective use of the computer system. The Joint General Manager, (Planning and Business Development) is supported by two Deputy General Managers. One, for planning, management information system, public relations and publication functions and the second one for Business Development Function.

The Joint General Manager (Recovery) handles the recovery, follow-up, guarantee etc. functions, one of the core functions of the corporation. Three Deputy General Manager and five Regional heads are reporting to him. There are seven officers situated at Head office, looking after the recovery task for five regions
and two special purpose recovery i.e. legal recovery under the SFC Act and the Gujarat Public Moneys (Recovery of Dues) Act: 1979 and recoveries pertaining to fisheries loan. The Deputy G.M. follow-up is assisted by manager follow-up.

The Secretary (Board) directly reports to the Managing Director. He is looking after the Secretarial functions and heading the secretarial cell.

Finally, Joint General Manager is assisted by three managers in personnel and Administration department. A separate portfolio of personnel, administration and O & M is assigned to each. During the year 1983-84 a separate cell of O & M was set-up to study and improve the systems and procedure of the work of the corporation. 21

Considering the rapid strides made by the corporation and the geographical area of the state, it became imperative to function on a wide branch network. At present, the corporation functions with five regional offices each situated at Ahmedabad, Baroda, Bhavnagar, Rajkot and Surat. The Mehsana, Surendranagar, Junagadh, Broach and Bulsar district offices have been upgraded as the sub-regional offices during year 1986-87. The corporation operates through its twelve district offices and three field offices. The districts covered under each region are shown in Table III.6. The regional offices are headed by Manager 21. GSFC, AR – 1983-84, p.22.
while sub-Regional and branch offices are headed by deputy manager or senior inspector.

**Table : III.6**

**Districts Covered Under Regional Offices**

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Region</th>
<th>Districts covered</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Ahmedabad</td>
<td>1. Ahmedabad</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2. Banaskantha</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3. Gandhinagar</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4. Mehsana</td>
</tr>
<tr>
<td></td>
<td></td>
<td>5. Sabarkantha</td>
</tr>
<tr>
<td>2</td>
<td>Vadodara</td>
<td>6. Baroda</td>
</tr>
<tr>
<td></td>
<td></td>
<td>7. Kheda</td>
</tr>
<tr>
<td></td>
<td></td>
<td>8. Panchmahal</td>
</tr>
<tr>
<td>3</td>
<td>Bhavnagar</td>
<td>9. Bhavnagar</td>
</tr>
<tr>
<td></td>
<td></td>
<td>10. Amreli</td>
</tr>
<tr>
<td></td>
<td></td>
<td>11. Surendranagar</td>
</tr>
<tr>
<td>4</td>
<td>Rajkot</td>
<td>12. Rajkot</td>
</tr>
<tr>
<td></td>
<td></td>
<td>13. Jamnagar</td>
</tr>
<tr>
<td></td>
<td></td>
<td>14. Junagadh</td>
</tr>
<tr>
<td></td>
<td></td>
<td>15. Katch</td>
</tr>
<tr>
<td>5</td>
<td>Surat</td>
<td>16. Surat</td>
</tr>
<tr>
<td></td>
<td></td>
<td>17. Bharuch</td>
</tr>
<tr>
<td></td>
<td></td>
<td>18. Dang</td>
</tr>
<tr>
<td></td>
<td></td>
<td>19. Valsad</td>
</tr>
<tr>
<td></td>
<td></td>
<td>20. Dadra &amp; Nagar Haveli</td>
</tr>
</tbody>
</table>

The following readings are made, on the basis of the organisation structure adopted by the corporation:

1: The present structure has only one profit centre at the level of M.D. The regional and branch network is concerned with the recovery and
follow-up. Considering the recovery problem the corporation faces, it is imperative that reasonable amount of profit discipline be developed through the organisation. This can be achieved by divisionalisation of the activities of the corporation and thus creating more profit centres. Each regional office be viewed as a responsibility centre.

:2: The Head Office the corporation has becomes very 'fat'. There is a need to make the apex 'slim' and relatively free from day-to-day problems. This can be achieved by adopting divisionalisation as suggested above.

:3: It may also be noted that the criticism once levelled by Basu against the IFCI, for the complete absence of technical and economic research department in its organisation set-up, hold good with regard to GSFC also.

:4: In the existing structure, the public relation function has been placed under the planning function, which needs to be separated with a single portfolio looking to the size and volume of activities of the corporation. The view of the Abu Talib in this context are worth noting.

"The increase in business largely depends upon the creative policies of management and its aids in which marketing division stands on the top. But to the surprise, in many SFCs, marketing division has not been recognised so well. Where the marketing division has started functioning, the growth of business has enhanced to a considerable extent."  

In the existing set-up, there is no separate internal audit section. The corporation should make suitable changes and a separate internal audit department (IAD) may be created. The IAD has to serve various purpose like -- verification of accuracy of financial records, review of accounting policies, building effective internal control system, reviewing and revising MIS, reviewing and suggesting modus operandi adopted by the corporation, conducting special investigations, if called for, etc. All these activities, shall be over and above the statutory audit carried out periodically.

In the light of weaknesses pointed out above and the need for developing the organisation structure based on the sound management principle, the researcher has suggested the organisation structure shown in Chart III.3, and III.4.  

CHART : III.3
RECOMMENDED ORGANISATION STRUCTURE

Board of Directors

Chairman

Managing Director — Executive Committee

TOPMAT

Regional Divisions Business Development
1.Ahmedabad Division
2.Baroda Division
3.Surat Division
4.Rajkot Division
5.Bhavnagar Division

Large loans Division (Profit Centre)

Management Screening Committee

Appraisal & Client and
Sanction Legal Inspection Recovery Accounts & MIS

Accounts & MIS

Legal Inspection Recovery

Management Screening Committee

Staff

Large loans Division (Profit Centre)

P&A HRD O&M

Personnel & Default Secretary

Human Resources Development

Chief Internal Auditor

Chief Internal Auditor

Internal Auditor

Internal Auditor

Management

Regional Divisions Business Development

Executive Committee

TOPMAT

Managing Director

Chairman

Board of Directors
RECOMMENDED REGIONAL ORGANISATION STRUCTURE

Dy. or Jt. G.M. (Region)

Regional TOPMAT/Management Screening Committee

Manager (Business Promotion)
Manager (P & A)
Manager (Legal)
Manager (A/c and MIS)
Manager/s (Sub-Region)
Internal auditor

Appraisal & client counselling
Sanction & disbursement
Inspection
Recovery
The recommend structure is based on the concept of divisionalised structure, as required for sound management control system. The regional divisions shall be treated as profit centres, and full autonomy for the operations are given. All the operations right from loan application to recovery are handled by the regional office other than large loans above Rs. 10 lakhs. For large loans, a separate division at H.O. may be created, as a profit centre. All the activities related to appraisal, sanction, disbursement, recovery, inspection shall be carried out by the same division. The management screening committee, the existing one, of the corporation shall be the final authority for project sanctions for large loans.

The business development cell at H.O. shall focus on the pioneering, high-tech, sun rise industries, untapped new units/business and modernisation, expansion diversification of existing units including the separate economic research and public relation cell for each. It shall form broad corporate strategies and policies in these regards. The chief internal auditor shall be responsible for co-ordinating the internal audit of different divisions as well as the internal audit of large loans division. The personnel and human resources department shall concentrate on
broad personnel and industrial relations activities, training and HRD and organisations and methods. A separate cell of default management may be created at H.O., which shall cover the activities of handling chronic defaulters for the purpose of rehabilitation, rescheduling and rephasing, sale of the units etc. All such chronic defaulters files shall be transferred by the regional divisions to this department for the purpose.

In case of proposed regional structure, management Screening Committee on the same line of H.O. shall be created to take the final decision of the sanction of the project loan. All the activities related to loan procedure, follow-up and recovery shall further be divided, on the basis of sub-regions in order to achieve better co-ordination.

At the end I would like to quote that, "sound structure is a prerequisite to organisation health; but it is not health by itself. The test of a healthy business is not the beauty, clarity or perfection of its organisation structure. It is the performance of people." 24