THE FORM OF MANAGEMENT
In the field of public enterprise different forms of management are in vogue all over the world. The question of forms of management of public undertakings is of great importance - both in theoretical discussions, and in practical field. The different forms of organization basically evolved on practical grounds, and later, a set of theory developed around each form. So it is mainly from the practical point of view that the question of form of management is very important. The form should be satisfactory from the point of view of successful operation of the undertaking (to the satisfaction of the management as well as the consumer), effective control by government and legislature, nature and size of the undertaking, and so on. Different forms are chosen because of different implications in all respects.

Mr. A. D. Gorwala has observed: "The juridical shape of any state enterprise is also often of great importance. Modern development of technique enables the state to choose the shape it will give its enterprise. They can take the form of statutory corporations, limited liability joint-stock companies, committees or departments under secretariat. All these are instruments for achieving efficiency and economical management. They differ in their implications but the purpose remains the same."

It has been mentioned earlier that a number of forms are in use in the field of public enterprise. These, however, could be reduced to three standard forms which are to be found everywhere. It is these three forms that are discussed in great details. Only passing reference is made to other minor forms in the field. The basic characteristics of these three forms, viz. the "department", the "public corporation" and the "joint-stock company" are as follows:

The Department

It is the oldest and the traditional form of public enterprise. It is generally used for railways, posts and telegraph services, communications, ports and harbours, and commercial and industrial undertakings of a revenue-raising character. Its basic characteristics are:

(1) The enterprise is financed by the annual appropriation from the treasury and all or major share of its revenues are paid into the treasury.

(2) The enterprise is subject to the budget, accounting and audit controls applicable to other government departments.

(3) The permanent staff of the enterprise are civil servants, and the methods of their recruitment and conditions of their service are ordinarily the same as for other civil servants.
(4) The enterprise is generally organized as a major sub-division of one of the Central departments of government and is subject to the direct control of the head of the department.

(5) The enterprise possesses the sovereign immunity of the State and cannot be used without the consent of the government.

Thus these are the main characteristics of the departmental form of organization.

The Public Corporation

As Professor Robson has put it, "The public corporation is the most important invention of this century in the sphere of government institution".1

The evolution of the public corporation is based on the realization of the inevitability of state participation in the economic activity of the modern society. At the same time it recognizes that complex industrial enterprises need flexibility and autonomy enjoyed by a commercial enterprise in the private sector, and the public accountability necessary in a democratic society. The simple definition given by President Roosevelt is really very appropriate: "It is corporation clothed with

1 Nationalised Industry And Public Ownership, W. A. Robson, p. 28.
the power of government but possessed of the flexibility
and initiative of a private enterprise."

The public corporation has been accepted all over
the world with certain variations. The main character­
istics of this form are as follows:

(1) It is wholly owned by the State.

(2) It is generally created by a special law defin­
ing its powers, duties and immunities, and prescribing
the form of management and its relationship to established
departments and ministries.

(3) As a body corporate, it is a separate entity
for legal purposes and can sue and be sued, enter into
contracts, and acquire property in its own name. Corpora­
tions conducting business in their own name have been
generally given greater freedom in making contracts and
acquiring and disposing of property than ordinary govern­
ment departments.

(4) Except for appropriations to provide capital or
to cover losses, a public corporation is usually in­
dependently financed. It obtains its funds by borrowing,
either from the treasury or the public, and from its
revenue. It is authorized to use and reuse its revenues.

(5) It is generally exempted from most regulatory
and prohibitory statutes applicable to expenditure of
public funds.

(6) It is ordinarily not subject to the budget,
accounting and audit laws and procedures applicable to non-corporate agencies.

(7) In majority of cases, employees of the public corporations are not civil servants, and are recruited and remunerated under terms and conditions which the corporation itself determines.

Thus freedom from parliamentary estimating, appropriating and accounting procedures and inquiry into day-to-day management and freedom from civil service regulations are more important.

Another characteristic pointed out by Professor Robson is "disinterestedness". But this is not something peculiar to public corporation alone. It is more or less true of every form of public enterprise.

The Joint-Stock Company

It is established under the ordinary company law of the country. The government has controlling interest through its ownership of all or some of the shares. So it covers enterprises wholly owned by public authorities as well as mixed enterprises, through which the government enters into partnership with private enterprise. It is created by the order of the executive and not by any special legislation.

The reasons why many countries of Europe preferred this form are peculiar. In most of the cases the State
took over the private enterprises during the politico-economic crisis with a view to returning them to the private sector when things would be normal. So the form was retained to avoid any difficulty at the time of transfer. In some cases the proposed transfer did not take place though the form continued. Professor Friedman says that it is still the most widespread form of industrial public enterprise.

Another reason for its preference is the ease with which it can be created. It has also been found convenient to accommodate private foreign capital. Some of the Asian countries have adopted this form of organization for sponsoring certain industries in their pioneering capacity and then to be passed on to the private sector. The company form has not found favour in the U.K. It is more common on the Continent.

Minor Forms

Here a passing reference has been made to some of the minor forms of organization in the field of public sector.

(1) The Local Authority

It has played an important role, particularly in the field of public utilities. Recently, however, the municipal
enterprise has been on decline and the public utility services are being projected on to a regional or national scale.

In India the municipalization has not been so common and important.

(2) The Regulatory Commission

This device emerged in Great Britain in the nineteenth century as an instrument for regulating the railways in the public interest. The idea quickly spread to the U.S.A., and the regulatory commission has been occupying an important place there.

(3) The Operating Contract

This is a comparatively new device. The government enters into contract with an established private company for the management of a public enterprise and agrees to reimburse the contractor for all costs he incurs. He is given full authority regarding personnel, purchasing, and operating policies.

Thus the Department, the Limited Company and the Public Corporation are the three main forms of organization in the field of public sector. The other forms are not so important. As regards the differences among these three forms, they largely relate to matters like legal structure and authority, operational independence, and methods of legislative control and public accountability.

The polemical discussion about the relative advantages
of these three forms is quite well known and need not be repeated here in full. Of the three, the departmental form has not been so popular with the theoreticians and practitioners of public enterprises. That has been the general tone of discussion and a public corporation or a joint-stock company has been preferred to the departmental management. It lacks the flexibility and autonomy essential for the successful operation of the industrial and commercial public enterprise. With the ever-increasing participation of the state in the economic activity of the community, the drawbacks of a departmental management have become more and more obvious and so it has fallen in disrepute.

In some of the recent discussions, however, it has been suggested that by continuous efforts and introduction of certain devices, it would be possible to make the departmental form more acceptable for the running of public undertakings. The rules and procedures should be properly framed. The recruitment and training of personnel should be carefully undertaken and its initiative should be encouraged. Certain devices like Organization and Methods, budgetary and accounting reforms, techniques of the revolving fund, etc., would also go a long way in mitigating the usual drawbacks of departmental management.

Theoretically, there is nothing wrong with these
suggestions. The departmental form with a new look would certainly be more acceptable than the traditional one. But, with all the change, it cannot stand comparison with the other two forms. Even those who have put forth these suggestions are quite aware that all this would not be able to change the operation of departmental management in a radical way. So, in spite of certain improvements, the departmental machinery should not be entrusted with the management of business enterprises.

Where the activities of an enterprise are mainly of routine type, it is a case for departmental management. It is also useful in running small-scale industries, pilot projects and other industries at the initial stage. According to Professor A. H. Hanson, it has another advantage: there is no ambiguity about the degree of public accountability and there is a clear relationship with other parts of the governmental structure.

Professor Hanson, however, is not in favour of a widespread use of the departmental form in underdeveloped countries as the conditions for its success are not likely to be realized.

The two autonomous forms of management are the public corporation and the limited company.

As already mentioned, the company form is quite common on the Continent and has been a success in the operation of commercial and industrial public enterprises.
One of the advantages of the company form is the easy procedure with which it can be formed. It is also quite suitable when the state participation is of a temporary nature. When there is a change in the policy, the State can immediately sell its shares in the market and the composition of the company is changed. The company form is also strongly advocated in the case of mixed enterprises.

The major argument against the company form has been that there is no constitutional provision for its public accountability. Also, the use of the company form and of the law regulating commercial companies usually become a mere fiction because all or most of the functions, normally vested in shareholders and management, are reserved to the government. There is a possibility of excessive participation by ministers and civil servants in the public enterprise. To sum up the case against the company form, it would be better to quote Professor Robson:

"It compares unfavourably with the public corporation in almost all respects. It is not created by Parliament or in any way answerable to it. It is not directly under the control of the Government, except in so far as the Ministers can control the membership of the board or influence their policy indirectly. Its activities and policies are sometimes carried on behind a thick smoke-screen of secrecy which conceals much of what should be
publicly known. Its policy is neither openly laid down in an Act of Parliament after public debate, nor are there usually opportunities for discussing it in the legislature. . . . Its corporate nature is often fictitious, since the ownership is usually vested in the Crown or in the Government. It is in no way an instrument of democratic socialism but is rather a device for avoiding public accountability and control."

The argument against the departmental form is that it lacks flexibility and autonomy, while the argument against the company form is that it fails to provide element of accountability. So one turns to the public corporation, which theoretically satisfies those who want corporate flexibility and autonomy coupled with public accountability. This organizational form is based on the assumption that a full degree of public accountability can be imposed on a public enterprise (both industrial and non-industrial) without requiring it to be subjected to ministerial control in respect of its managerial decisions and innumerable routine activities, or to be liable to comprehensive legislative scrutiny of its day-to-day working. A policy of an enterprise could be distinguished from its administration. A successful combination of public control and entrepreneurial freedom can be achieved

\[^{1}\text{Nationalised Industry And Public Ownership, by W.A.Robson, p. 28.}\]
by reserving certain powers of decision, in matters of major importance, to the political executive responsible to the legislature, and leaving everything else to the discretion of the management of the public corporation.

Thus the principal advantages of a public corporation are in its freedom from unsuitable government regulations and control, and its high degree of operational and financial flexibility. Because of these advantages it is possible for a corporation to operate almost as a private enterprise.

With all its advantages, a public corporation cannot be considered as a panacea for all organizational problems of traditional governmental organizational maladies of the public sector. Though it has solved many problems of the traditional governmental organization, it has also given rise to new and equally difficult problems. According to Professor Robson the most difficult of these problems is its relationship with the ministry and the legislature. The general problem is how to strike a nice balance between public accountability and autonomy. A slight inclination towards one of them would upset the whole balance of forces and defeat the very purpose of the organization. Though most suitable for a public enterprise, it is perhaps the most difficult device to operate successfully. Professor Hanson has observed that the public corporation is a very difficult device to work successfully, even under
governments far more experienced and equipped with a much more sophisticated administrative apparatus than those of any underdeveloped countries.

Form of Management: General Trend in India

Against the theoretical background of the characteristics and the relative merits and demerits of the three important forms of management, it is necessary to review the general trend in India regarding the choice of form of management.

Unlike certain western countries, no particular form of management has been evolved in this country along with the development of the public enterprise. Here the basic problem is to choose the right form of organization for an enterprise and operate it successfully. So, naturally, it has to look up to the advanced countries with fairly good background of public enterprise, for necessary guidance in this direction. Some of the authors like Professor Hanson, who have written about the enterprise in underdeveloped countries, have expressed the view that merely imitating the prototypes as available in advanced countries is not desirable. It is too much to expect that once the proper form is chosen, all other difficulties will dis-
appears. Professor Hanson remarks that most of the underdeveloped countries have not been able to appreciate this point. He observes:

"Organizational forms, embodied in legislative provisions, are certainly important. But they are the beginning of wisdom, not the end, and may not be even the beginning if unimaginatively copied or moulded to fit certain dogmatic assumptions." ¹

Coming to the under-developed countries of Asia, of which India is a part, one finds that there is a general tendency to move away from the departmental type of management in the field of public sector. The possible exceptions are Thailand, Burma and Ceylon. Most of these countries have made use of the public corporation on the British model.

In India the oldest form of management of public enterprise has been obviously the department. The three major pre-independence state enterprises, namely, the Railways, the Posts and Telegraphs, and the All-India Radio, have been managed departmentally. The defence production units and the workshops attached to the railways have been organized as departmental units. The major exception was the Hindustan Aircraft, Ltd. which was organized as a company. This was so because the concern

¹ Public Enterprise and Economic Development, A. H. Hanson, p. 337.
was a private company before the Government took it over as a war-time measure.

Even some of the post-independence public enterprises have been entrusted to the departmental management, e.g. the Indian Telephone Industries, Nasik Security Printing Press, Printing Ink Factory, etc. Chittaranjan Locomotives and the Integral Coach Factory were also under departmental management.

But there has been a gradual realization that it is necessary to organize most of the manufacturing units in some non-departmental and semi-autonomous form. The Government of India, the Planning Commission, Members of Parliament, the Estimate Committees of Parliament have all expressed themselves against the departmental management of public enterprises, particularly those of commercial and industrial nature.

In his 'Report on Efficient Conduct of State Enterprises' submitted to the Planning Commission, Mr. A. D. Gorwala has suggested that the use of departmental form should be made very sparingly and only in certain cases, such as:

(a) Defence industries - for their strategic importance.

(b) Operation of economic controls and state trading, involving monopoly purchase and levy of grain and rationing.

(c) Projects which have received the broad administrative approval but which are in reality at the stage of departmental preparation.
The Planning Commission has also stated that as the usual drawbacks of the departmental management are well known, the development of organization of public enterprises should not take place on those lines.

The two Estimates Committees, which have devoted their attention to the form of organization of public enterprises, have also expressed themselves against the idea of State undertakings being managed departmentally.

Till 1953-54 there was some hesitation regarding the policy of converting some departmental undertakings into autonomous forms. Now one finds that the departmental undertakings have been converted into companies. Even in certain states some of the important units are being converted into company form.

The Public Corporation

Though not officially rejected like the department, the public corporation has not found favour either with the Government or with the Planning Commission. It has been adopted rather as an exception than as a rule. The form has been scrupulously avoided in case of manufacturing units.

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The major instances in which the public corporation form has been adopted are:

1. Damodar Valley Corporation.
2. Air-India International.
3. Indian Airlines Corporation.
4. Life Insurance Corporation.
5. Industrial Finance Corporation.
7. Employees State Insurance Corporation.
8. Rehabilitation Finance Administration.

The Planning Commission has expressed neither its preference nor its opposition to the public corporation form of management. In the discussions on the form of organization one rarely finds adequate mention of the public corporation.

It is only in one case that the Government of India and the Planning Commission have vigorously advocated the use of the public corporation. It is in the case of road transport undertakings run by the state governments. More of it will be discussed in the following pages.

In his Report Mr. Gorwala has shown his preference

1 Report on Efficient Conduct of State Enterprises, A. D. Gorwala.
for the joint-stock company in general. He, however, recommends:

"The public corporation is essential where the undertaking is discharging what is in effect an extension of the functions of government, e.g. irrigation and hydro-electric projects as in a river valley scheme or the dissemination of information as in broadcasting or surface carriage of passengers and freight as in state transport."

But the Estimates Committee (1959-60) in its report on the form and organization of public undertakings has strongly recommended the use of public corporations in general. It has observed that the departmental management should be adopted in special circumstances, and company form should be an exception to be resorted to only for organizations of a specified nature.

The Company Form

It is the company form of organization which has been the most popular with the Government of India. Almost all commercial and industrial enterprises are joint-stock companies established under the Companies Act, though sometimes they are designated as corporations.

In his Report, Mr. Gorwala has also quoted the decision of the Central Government to make use of the company

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1 Eightieth Report.
form when the enterprise is essentially for manufacture and sale. He himself has shown his preference for the company form in case of an enterprise which is substantially commercial in nature.

The Planning Commission has also stated, at many stages, that it is in favour of the company form of management in general. It has never explicitly mentioned the place of the public corporation in the field of the public sector of the economy.

The First Five Year Plan, dealing with the subject of form of management of public enterprises, states:

"The drawbacks of departmental management of public enterprises are well known. ... Several of the industrial undertakings directly under the Central Government have already been organized as joint-stock companies with boards of directors vested with powers of management in the same manner as in any undertaking in the private sector. Recent inquiries into the working of industrial enterprises in some of the states reinforce the desirability of organizing these enterprises as entities independent of day-to-day governmental control.

"We recommend, therefore, that industrial undertakings under the state governments should be organized as joint-stock companies and operated on business lines with the internal management entirely under the control of board of directors."

1 First Five Year Plan, Chapter XXIX, pages 420-30.
In a chapter on the organization of public enterprises, the Third Five-Year Plan states:

"... Till some years ago, in the earlier stages, projects were handled departmentally. Later a decision was taken that government enterprises of a commercial nature should be organized as companies. At present in the case of most of the new projects ... a company is formed to see the project through from the outset including the stage of construction."

Even Paul Appleby has not made any adverse comments on the growing trend of company management of public undertakings in this country. He has only observed that fruitless debate has been taking place over the relative advantages and disadvantages of the company form and public corporation. Both are essentially the same and differ only in the basis of their legal authorization.

The Government and the Planning Commission have not so far put forth any argument in support of their preference of the company form (to the public corporation in particular) beyond saying that it is an urgency measure and is experimental.

But the reasons for this marked preference can be easily guessed: Easy formation is one of the attractions

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1 Third Five Year Plan, Chapter XVI, page 266.
of a joint-stock company. There is no need for the government to put up the necessary provisions for the approval of the Parliament and so on.

The company form is certainly more flexible regarding the capital and managerial structures of the undertaking. Quick adjustments could be made in these two things, without any formal approach to the Parliament. The Articles of Association of the company could be framed in such a manner as to provide for various possibilities from time to time. Since the Articles of Association is an internal document, it could be altered by government itself in accordance with the changing needs of the undertaking.

The government also believes that the adoption of the company form in the public sector would ensure the running of the undertaking on successful lines. For, the record of the form in the private sector has been quite encouraging.

However, the present policy of the Government of India has been under fire from various quarters.

As already mentioned earlier, the Estimates Committee has recommended that, in general, all autonomous undertakings in the public sector should be organized in the form of public corporations, rather than as joint-stock companies. The company form should be an exception to be resorted to only for organizations of specified nature.
in the following cases:

(a) When government has to take over existing enterprises in an emergency;
(b) Where the State wishes to launch an enterprise in association with private company;
(c) Where government wishes to start an enterprise with a view to transferring it to private management.

The Members of Parliament have also opposed this form for the lack of proper accountability to Parliament.

The manner in which these companies have been constituted and their working have also been severely criticized. It is said that with a secretary of a ministry as Chairman of the Board, the representatives of various ministries concerned as members, and the Managing Director drawn from the same group, the companies enjoy only the semblance of autonomy and are gradually becoming extensions of government departments. Same officials are found on the Board and in the secretariat. In one capacity they formulate policies and in another they sit in judgement over the same. At the secretariat level the Secretary-Chairman of the Board has a right to veto proposals with which he does not agree at the Board meeting. Thus one and the same person is supposed to uphold the autonomy of the company as Chairman, and to qualify it as a secretary.
Thus there is a concentration of powers in the hands of government, without immediate checks by Parliament. The companies work on lines analogous to departmental organizations, but they are less accountable to Parliament. One critic has remarked that the company form has made bureaucracy almost bullet-proof. Foreign authors on public enterprises, like Professor Hanson and Professor Robson, have disapproved of the present trend in favour of the companies and their actual working in this country.

The manner of the formulation of these companies has provoked sharp comments from the former Comptroller and Auditor-General who has described it as a "fraud on the Constitution".

The above-mentioned objections have been repeated in the reports of the Estimates Committee and Public Accounts Committee.

The government has partly tried to meet this criticism by making certain provisions in the new Companies Act. Special clauses have been included in the Act regarding government companies, which are defined to mean any company in which not less than 51 per cent of the share capital is held by government. The auditor is also to be appointed by government on the advice of the Comptroller and Auditor-General, the latter also having the power to conduct a special audit if he considers it necessary. Another important provision is that the Act specifies that
the government shall place before the legislature an annual report along with the annual accounts and audit reports.

So much about the general pattern of the form of management at the Central level. Things are not the same at the state level. The departmental form has not at all fallen in disrepute. In some states the departmental management of nationalized road transport continues in spite of the directions issued by the Central Government and the Planning Commission to change over to public corporation management.

The main reason for reluctance on the part of the state governments to give up the departmental form has been that they want to have a full control over the profits of the industry. It is also due to the liability of public corporations to income tax.

Like the Centre, the industrial establishments have been generally organized as companies in the states. The public corporation form is used sparingly - mainly in case of public utility undertakings. This, therefore, is the general pattern in the states.

In general, there is much awareness in the country regarding the importance of form of management of public enterprises. The Planning Commission, Members of Parliament and of State Legislatures, the Public Accounts Committees and Estimates Committees of Parliament, and
other committees have devoted their attention to this problem.

With all this, there is a lack of any clear-cut policy statement on the subject of form of organization. Though there is an official denunciation of the departmental form, the respective places of the public corporation and the company form have not been clearly indicated. There is no discussion in the official documents about the relative merits and demerits of these two forms.

As already mentioned, the Government of India has never taken troubles to put forth sound arguments in support of their preference for the company form. No committee has been appointed so far to give guidance or lay down some general principles regarding the choice of form of management. The Estimates Committee has also felt such a need and has recommended the appointment of the Committee for the purpose. It observes:

"An expert committee be appointed to examine the whole question and to advise the government on the principles which should determine the appropriate form of organization for the various types of undertakings."

During the last 12 years, no well-defined principles have been followed in determining the form of organization

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1 Estimates Committee - 1959-60 Eighth Report.
of public undertakings. If the choice of form is on the functional basis, one finds instances of undertakings performing similar functions, but with different forms of management. The Damodar Valley Corporation has been organized as a public corporation, while certain other multi-purpose projects have been organized as Control Boards, e.g. the Nagarjunsagar Board, the Bhakra Board and the Tungabhadra Board.

It is officially declared that the joint-stock company has been earmarked for undertakings basically of commercial nature. But in some cases, enterprises with predominantly non-commercial functions have been organized as joint-stock companies. They are: the State Trading Corporation of India, Ltd., the National Industrial Development Corporation, Ltd., the National Research Development Corporation of India, Ltd., the National Small-Scale Industries Corporation, Ltd., the National Coal Development Corporation, Ltd., the Indian Handicrafts Development Corporation, Ltd., the Exports Risks Insurance Corporation, Ltd., etc.

Another trend regarding the formation of companies is that each unit of production is set up as a separate company, though some of them perform similar functions. The possible major exceptions are: The Hindustan Steel Company, The Hindustan Insecticides Company, and The National Coal Development Corporation.
Though an attempt has been made to co-ordinate the activities of enterprises with common functions at the secretariat level and by a system of interlocking of directorship, this tendency is not desirable. It has met with criticism in the country and from foreign experts as well.

Yet another point that strikes an observer is that a fair trial has not been given to the public corporation form along with the company form, though the public corporation has been used in some cases of transport, banking, insurance, and trade. Nothing has been officially said against the public corporation, and so, one is really at a loss to know why it should not be tried in more cases, at least on an experimental basis. Here the trend of choice has been rather one-sided.

The Form of Management of Bombay State Road Transport Corporation

The Government of Bombay made it clear from the beginning that the management of nationalized road transport undertaking would be entrusted to a statutory public corporation, though, during the transitional period, it would be run departmentally. In fact, Bombay is the first state in the country to set up a public corporation to run state transport.

The first indication of government's intention to
set up a statutory corporation was given by Mr. Morarji Desai, Home and Revenue Minister, while moving the motion embodying the scheme of nationalization of road transport, in the Bombay Legislative Assembly. Speaking on the occasion, he said:

"...People have argued that it will not be possible for Government to run these services in a business-like manner. Government, therefore, intend, in course of time, even to meet this argument by setting up a statutory Board which will run these services. We have, however, no powers at present to create a statutory Board for this purpose: the powers rest in the Central Government. Until we are able to do that, these services will be run by Government directly. At the same time, we want to associate with the running of these services the various advisory bodies, so that the people who are affected by these services will be consulted from time to time in regard to improving these services."

At this time, surprisingly enough, no views were expressed by the Members of the House on the form of management of state transport - a very important aspect of the public sector.

The Government of Bombay never gave any elaborate reasoning for its choice of a public corporation for the

1 Bombay Legislative Assembly Debates, Volume II Part 22, dated 7th October, 1947.
management of state transport. It is necessary to examine some of the possible factors which might have influenced this decision.

The Administrative Enquiry Committee, appointed by the Government of Bombay, recommended, in its report, the use of public corporation, in general, in the field of public enterprises of the Bombay State. Referring to state transport, the Committee said that a departmental management, even for a transitional period, is not desirable, as it is likely to prejudice the future working of autonomous corporation. So the Committee suggested that the departmental management of state transport should be transferred to appropriate statutory corporation without delay.

This must have influenced the choice of the form of management of Bombay State Transport.

The decision of the Central Government to facilitate the establishment of such corporations is also an important factor in this connection.

In 1947, the Labour Government nationalized all inland transport in the U. K., and entrusted its management to a statutory public corporation - the British Transport Commission. This fact, together with the growing status of public corporation in the field of British public sector, must have also influenced the choice of the
Government of Bombay regarding the management of State Transport.

It is necessary to examine the general trend of opinion regarding the form of management of State Transport in the country.

As already mentioned, the Government of India has been vigorously advocating the use of public corporation in only in one field, i.e. state transport. But the beginning the Central Government took a neutral position regarding the form of organization of provincial state transport. While introducing the Road Transport Corporations Bill, 1948, in the Constituent Assembly (legislative side), the Minister for Railways and Transport made it clear that the introduction of the Bill was not an indication of the choice of the Central Government. Because of a peculiar constitutional provision, the Central Government alone had the power to enact such a Bill. The Bill was introduced because certain provinces felt that the management of the nationalized road transport should be entrusted to statutory public corporations for efficient operation. So this was only an enabling measure for such provinces. The provincial governments were free to choose their own form of government. Thus Dr. Mathai took great pains to establish Government's neutral position in this respect. To quote Dr. Mathai:

".... Recently there has been a trend in some
provinces towards provincialization of road transport organization, and in connection with the schemes for provincialization, they have found that a Road Transport Board would be the most suitable form in which the organization could be set up. .... In other words, the purpose of this Bill is simply this: Where Provincial Governments feel that the most suitable way in which they can develop their road transport is to set up a statutory corporation, it is necessary that the central legislature should authorise the Provincial Governments to set it up. If we do not provide the necessary legislative authority, that kind of organization cannot be set up. But it does not, in the least, mean that this legislature is directing the Provincial Government or the provincial legislature to proceed on any particular lines in regard to their road transport organization. It is open to them to set up various alternative organizations for their road transport. For example, it is open to them to set up a company, under the ordinary Companies Act. It is also possible for them to run the whole thing departmentally. Now a statutory corporation for a public utility service of this kind has certain inherent advantages. If the Provincial Governments find that, in view of those advantages, they want to set up a corporation, it is necessary that they should obtain legislative authority from the Central Government. That is all the point of this Bill."

1 Constituent Assembly of India (Legislative) Debates, Vol. V - No. 3 - Date 8th April, 1948.
Thus, though the Minister has made a passing reference to the inherent advantages of the public corporation, he has also emphasized that the Bill is in no way indicative of government's preference for the form of organization of nationalized transport undertakings.

The various Members of the Central Legislature, who participated in the debate that followed, made a few comments on the form of management. Most of them spoke at length on the relative merits and demerits of nationalization of road transport. So, it appears, that the Members were not much aware of the importance of the form of organization of public undertakings. The only exceptions were the two members from Madras — Mr. K. Santhanam and Professor N. G. Ranga. Mr. Santhanam welcomed the mechanism of a public corporation as the most desirable way of running transport service, a public utility enterprise. Professor Ranga, however, thought that by passing the Bill, the Government would be putting the provinces (particularly those which are running state transport departmentally) in an awkward position, by creating a favourable opinion about the public corporation. These provinces should not feel that the Bill is in any way a reflection on their own management. He also disapproved of the public corporation form as it did not ensure effective legislative control.

The same neutral attitude regarding the form of management of state transport was maintained by the Central
Government when it again came with a Road Transport Corporations Bill (1960) before the Indian Parliament, as the previous Act was found defective by the judiciary. Moving the Bill in the House, on 25th November 1960, Mr. K. Santhanam, Minister of State for Transport and Railways, said:

"... This is purely an enabling Bill. It does not compel the states to form a Road Corporation at all. They are free to form a Road Transport Corporation or not. What all the Bill says is that when any state chooses to run its road transport service through a public corporation, that road transport corporation shall conform to the provisions of the Bill."

In the debate that followed, a very few members spoke on the form of management. Those who spoke complained of the lack of proper legislative control in case of a public corporation. One of them urged the association of the Members of State Legislatures and Parliament with the working of these public corporations.

This neutral position regarding the form of management of state transport was not maintained for long by the Central Government. It gradually became more favourable towards public corporation as a form of management of state transport. The basic reason for this preference was that the public corporation offered an institutional device in which the railways (which is a Central
Government monopoly could have financial interest and proper representation on the governing board of the corporation. The Central Government thought this to be very essential to safeguard the interests of the railways and also have some supervision by association. This could not have been achieved in case of a departmental management. So, by various ways, the Central Government encouraged the states to establish public corporations to run state transport undertakings.

The Planning Commission has also strongly recommended the use of public corporation for the management of nationalized road transport undertakings. The First Five-Year Plan states:

"As regards the agency for running the state transport services, we are of the opinion that whenever road transport services are run by the State, a corporation should be formed for the purpose, as that would provide the necessary autonomy and would lead to more efficient administration...."

Thus the emphasis is on the autonomy of an undertaking. The Planning Commission advised the states, in 1954, to set up tripartite corporations, consisting of the state governments, the railways and the public. This suggestion was repeated at the time of approving expenditures on road transport under the Second Five-Year Plan. The approval was made conditional with a strict understand-
ing that the states would set up public corporations. Some of the states like Kerala, the Punjab and U.P. represented that they should be allowed to continue the departmental management. The Commission considered the representations, and again issued a circular-letter, in May 1956, emphasizing that the provisions approved for road transport services in the State Plans were subject to the conditions that the state governments should set up statutory corporations for the purpose. Some of the states did not accept this decision and continued to have departmental management. So it was decided by the Planning Commission that no provision should be included for road transport in the future Plans for those states. The annual plans of the states for 1958-59 and 1959-60 were examined strictly on this basis, and no provision was made for the states which had not agreed to set up public corporations.

It is said that Bihar was unable to secure a sizable allotment for road transport because of departmental management till recently. Besides Bombay State, Pepsu and Delhi had already established public corporations. Public corporations were formed in Kutch, Saurashtra, Andhra Pradesh and Bihar, partly as a sequel to the policy of the Planning Commission. Uttar Pradesh, Kerala, Assam, and Orissa have not shown any inclination to fall in line, while Mysore, Madhya Pradesh and the Punjab are still considering the proposal.
In order to persuade the state governments to entrust the management of state transport to public corporations, the Ministry of Finance issued a letter on 7th December 1957, stating that the Central Government had decided that no assistance would be given from 1st April 1958 to state transport undertakings which were managed departmentally, unless they were set up as public corporations or as companies. But in spite of this warning, some of the states have not yet agreed to establish corporations. So the whole question was reviewed at a meeting of the Planning Commission, in December 1968, and it was decided that the policy decision regarding the formation of corporations should be reiterated and the issue should be brought up before the National Development Council.

From the above-mentioned letter of the Finance Ministry, it seems, though the Central Government would like the states to set up public corporations, it would prefer company form to the departmental management, in case the states are reluctant to establish public corporations.

The Third Five Year Plan observes:

"The Planning Commission had some time back advised the State Governments to set up corporations under the Road Transport Corporations Act, 1960, to manage the nationalized road transport undertakings in which the railways, and, if possible, the private operators should
participate. The principal reason underlying this policy
decision was the need to ensure that the State Govern-
ment undertakings, which are likely to grow into large
monopolies in future, do not come into unfettered compe-
tition with the railways, which are a Central Government
monopoly. The corporation form of management provides
some safeguard against undue competition between them.
The Committee on Transport Policy and Co-ordination, in
its preliminary report, has unanimously endorsed this
policy. Corporations have already been set up in several
States, and it is hoped that the remaining States will
set up corporations as early as possible...." 

One can understand the Planning Commission's
concern about the interest of the railways, which has
prompted it to advise the states to form public corpora-
tions in which the railways can participate. But why
the Commission should be equally anxious about the private
operators? At no stage this has been explained in a
satisfactory manner. The question of inviting the co-
operation of private operators in the management of
nationalized road transport undertakings should be left
to the judgement of the states alone.

The Estimates Committee (1956-57), in its Sixtieth
Report, which deals with motor transport, has also ex-
pressed dissatisfaction at the poor response given by the

1 Third Five Year Plan, Chapter XXVIII, p. 554.
states in establishing statutory corporations to run the nationalized road transport undertakings. In reply to these comments the Central Government provided the Estimates Committee with a detailed account of different measures taken by the Planning Commission and the Government in this direction.

Suitable Form of Management For State Transport

Whatever may be the views of the Central Government, the Planning Commission, and the various states about the form of organization of state transport, it is necessary to examine the question of the most suitable form of organization for state transport. The suitability of the form will have to be judged mainly on one criterion, the nature and characteristics of the road transport industry. The basic characteristics of the road transport industry are as follows:

The optimum unit of the industry — both from the managerial and operational points of view — is very small. The operating conditions are diverse and vary from region to region. So flexibility and wide range of decision-making and initiative are necessary at the local managerial level. The local unit is required to take quick decisions based on local conditions. There is little scope for standardization. So every regional operating unit must have a sufficient degree of managerial autonomy. Thus the nature of the industry calls for a
decentralized pattern of management. The nature of the industry is also essentially commercial. So a transport undertaking must be operated on a commercial basis.

All these conditions are likely to be fulfilled more by either a public corporation or a company, rather than by a departmental management. The autonomous form is also preferable as there is likely to be little political interference which may be detrimental to commercial principles. The autonomous form can adopt commercial and flexible procedures of internal organization.

An attempt has been made in this country to study the question of a suitable form of organization for state transport on theoretical and empirical basis. But it is mainly confined to comparative analysis of the departmental form and the public corporation form. The question of the suitability of the company form in the field has not been dealt with at all. This is also equally important. In fact, the comparisons should have been between the two autonomous forms of organization. There is also some empirical data regarding the working of the company form, as two states tried their hand at this form.

Though, theoretically, an autonomous form of organization is more suitable to run a transport undertaking, it will be interesting to study whether the statutory provisions of the Road Transport Corporations Act, 1950, and the actual working of different State Transport
Corporations in the country justify this claim or not. (This has been dealt with in the next Chapter).

It is necessary, at this stage, to say a few words about the choice of the Government of Bombay regarding the form of management of State Transport against the background narrated above. Bombay was the first state in the country to establish a public corporation to run nationalized road transport undertaking. The Government had a clear policy right from the beginning as regards the form of management to be given to the nationalized road transport. As promised earlier, the Government run the Bombay State Transport as a departmentally managed unit only for a transitional period. As soon as the constitutional difficulties were over, the Government set up a public corporation in accordance with the Road Transport Corporations Act of 1948. In fact, one of the main reasons for the Central Government to introduce this Act, was the request made by the Government of Bombay in this respect. Also, the decision to set up a public corporation was taken by the Bombay Government at its own initiative; it was not as a result of the pressures exerted either by the Planning Commission or by the Central Government. The Government of Bombay had no intention, from the beginning, to invite the public or the private operators to participate in the public corporation to be set up for running Bombay State Transport.
Thus, the record of the Government of Bombay, regarding the form of organization of State Transport, stands out in contrast with that of many other states, and it really deserves praise.

The various aspects of the Bombay State Transport Corporation will be discussed in a separate chapter. A brief review of the working of the departmental management of Bombay State Transport is necessary.

The Departmental Management of Bombay State Transport

After having decided to take over road transport services in the Province, the Government of Bombay established the State Transport Department to implement the scheme of nationalization. This was in the form of a temporary measure until the administration could be handed over to a statutory corporation to be set up for the purpose. The Department started functioning from 1st April 1948.

The first major step in the working of the Department was the appointment of a High Power Committee. The Government had full realization that the running of a transport undertaking was essentially a commercial function and the usual procedures of a government department were not suitable for this kind of function. So the Government appointed the High Power Committee with powers to take prompt decisions regarding the administration of
State Transport. The Committee consisted of the Secretary and the Deputy Secretary of Home Department; the Deputy Secretary of Finance Department; a representative of the Railways; and the Provincial Motor Transport Controller.

The establishment of the Committee helped to speed up the work. According to the orders of the Government, all the resolutions of the High Power Committee were to be treated as Government resolutions; this went a long way in the speedy implementation of the scheme.

The Committee functioned from 25th February 1948 to 15th November 1949 and met on forty-six occasions during that period. In most of the cases the sanctions of the Committee were approved by the Government.

The establishment of the High Power Committee was a very important and wise step taken by the Government of Bombay; its results were quite satisfactory. Such efforts are conspicuous by their absence in the departmental management of other states.

The re-organization of road transport services taken over by the Government had various aspects like purchases, construction, recruitment of personnel, etc. All these special matters were assigned to different committees set up for the purpose. The composition of the committees was predominantly non-official. The committees set up were as follows:
(1) Technical Advisory Committee

This Committee was set up to advise on all matters relating to purchase of chassis, bodies, workshop equipment and other technical equipment required for the operation of services.

(2) Provincial Advisory Committee

The function of this Committee was to advise on all matters pertaining to the operation of services. It served as a liaison agency between the administration and the people. It mainly consisted of non-official members and there was only one representative of State Transport Department.

(3) The Provincial and Divisional Selection Boards

These two Committees were constituted to select the personnel sanctioned by the Government for the Central Office and the Divisions of State Transport, respectively. Most of the members of these two Committees were non-officials.

(4) The Valuation Committee

It was constituted to assess the value of the vehicles and other assets of the displaced operators.

The Chairman of the Committee was a non-official member. One member represented State Transport and the other represented the operators whose assets were to be
taken over.

All decisions taken by these Committees were subject to the approval of the High Power Committee, and finally, the decisions of the High Power Committee were to be approved by the Government.

The working of the departmental administration became smooth and speedy due to these various Committees. Efforts were made to associate non-official elements at every stage of the working of the Department. It is also interesting to note that the spadework of the implementation of the scheme of nationalization of road transport in the Province was done by the Department. The corporation that followed, continued to work on these lines in general.