

GOVERNMENT OF INDIA
PLANNING COMMISSION



REPORT
ON
The Efficient Conduct of State
Enterprises

by
A. D. GORWALA

1951

INTRODUCTORY NOTE

In recent years, the Government's functions in the economic field have expanded rapidly, and it has been necessary for the administration to accept new and difficult responsibilities. In the course of its work during the past year, the Planning Commission has been impressed with the need to strengthen the machinery of economic administration at the disposal of Government, both at the Centre and in the States. The efficient administration of public enterprises is an aspect of this problem which seemed to the Commission to require special study. Accordingly, it requested Mr. A. D. Gorwala to undertake this task.

Mr. Gorwala has drawn widely on his experience of public administration as well as of industry and has made several valuable suggestions. These are at present under the consideration of the Government of India.

The Commission wishes to express its gratitude to Mr. Gorwala for preparing this report.

N. R. PILLAI,
Secretary.
Planning Commission.

NEW DELHI,
August 2, 1951.

BOMBAY,
June 1, 1951.

The Deputy Chairman,
Planning Commission,
NEW DELHI.

SIR,

I have the honour to submit the report desired by you on the efficient conduct of State enterprises.

Your most obedient servant,
A. D. GORWALA.

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CHAPTER I

THE PROBLEM

THE world has travelled a long way from the time when the prevailing belief was that expressed in the ancient Indian proverb "Where the king trades, the country is ruined". Circumstances have compelled most modern States to take prominent part in industrial and commercial matters and not a few find themselves discharging functions which in the past would have been left to the trader and the manufacturer. The old *laissez-faire* practice has become completely impracticable; even when it is publicly stated that government believes in non-intervention and its policy is to leave industry and commerce severely alone, in actual fact it is found that these declarations are not strictly followed. The affairs of governments, industry and trade have somehow got so mixed up that the question of complete separation can no longer arise. There are, of course, various stages and degrees in this matter. They vary from advice and instruction through control to the actual financing and management of industrial and commercial enterprises. In India we have examples of many of these stages. There are industries and commercial concerns which government merely assists, there are those it controls and there are others it owns. These last may be wholly or partly financed and controlled by the Central Government or the States Governments or sometimes a combination of two or more governments. Such concerns are termed "State Enterprises" and the problem under consideration is the devising of means for the successful fulfilment of the task set to these enterprises.

The test of success for any business enterprise is not an easy matter. A concern may make a profit and yet not be a real success. For State enterprises, success means the economical and efficient attainment of the targets set and the standards expected. Both targets and standards normally relate to several aspects. The work must be done within the time fixed, the quantity predetermined must be produced and the product must be at least of the quality originally laid down. In all these matters, as indeed in considering the success of the organisation as a whole, comparison with private industry is inevitable. Moreover, State enterprise has to draw so many lessons from private enterprise that some discussion of it cannot be avoided.

It is not the task of this report to define the appropriate sectors of public and private enterprise. Comprehensive orders on that subject have been previously issued and the public sector already ordained is taken for granted, cognizance being accorded not only to the existing enterprises within that sector but also to the new ones contemplated by policy.

Older State Enterprises

The oldest State enterprise in India is the Post and Telegraphs Department. The protection of the State being essential to secure the safe carriage of letters in the troubled times of the past the postal service became a function of the State and since administrative convenience and security were very important reasons for the introduction of the telegraph service, that too was included in the proper field of State action.

The first industrial enterprises of any magnitude were the Railways. It is curious to reflect that India would have been the earliest country to have a substantial measure of State enterprise if the view that railways ought to be built out of public funds had prevailed and the controversy regarding guaranteed interest which went on for quite a long time not ended in favour of the companies. As it turned out the companies in the earlier period, built the railways and later even when the State built the Railways managed all the most important, profiting greatly for many years. However the companies have all passed into the possession of the State. Thus (posts and telegraphs and railways form the bulk of the older State enterprises on the civil side. Certain factories for the making of munitions and the supplying of special defence needs were also set up at intervals under the auspices of the Defence Department.

New State Enterprises

The last war brought about a remarkable development in the sphere of State enterprise. In addition to supplying service, Government for the first time entered the field of wholesale and retail trade. The shortages of supplies that followed the loss of Burma and the inability of private enterprise to make any headway in the circumstances of the time compelled Government to take over both the import and distribution of foodgrains. Further deterioration of the situation made inevitable the bringing in of rationing and the obtaining of

supplies by monopoly purchase and levy from the cultivators so that by the end of 1944 in a deficit province like Bombay the scope of State enterprise had been extended to include the entire wholesale and most of the retail trade in foodgrains. In addition, other commodities in scarce supply from time to time were also dealt in by Government.

About the end of the war, the idea of planning which had aroused a great deal of enthusiasm in non-official circles, became the accepted policy officially and with the formation of a popular government, the conception of the Welfare State obtained a strong hold upon the imagination of many prominent citizens both in government and outside. The impact of these conceptions led to a further development in the sphere of State enterprise. On the one side (i) On existing lines there was expansion on existing lines. Several large irrigation, flood-control and hydroelectric projects were thought of and some were sanctioned. Government, more especially provincial governments, felt responsibility must be undertaken for providing good transport services, thus extending the control of the State to Road Transport.

There was also development along lines hitherto untouched, dictated by the urgent needs of the country, such as (ii) On new lines the setting up of a special factory to make fertiliser at Sindri. The Governments of some of the Princely States of the old India had sought to perform for their peoples some part of the functions which the industrialist and businessman did for the rest of India. With a view to providing employment both for their surplus funds and for some of their subjects they had set up ordinary industries. The most prominent of these were Mysore and Hyderabad in which the State owned quite a number of concerns.

State enterprises can best be classified according to the functions they discharge. Many, both civil and defence, come under the head of production. They manufacture articles needed by special branches of Government or the public. The principal enterprises of which the function is distribution are those included in State Trading. Enterprises which supply special services, such as transport, and electricity,

Planning and State
Projects

(i) On existing lines

(ii) On new lines

Enterprises of former
Indian States

Types, Stages and
Shape of State
Enterprises

come under the head of Public Utilities. Apart from all these, stand the large Multi-Purpose River Valley Projects. One, the Damodar Valley Corporation, has started operation and others are in contemplation. This enterprise forms by itself a special type. Finally there are some miscellaneous enterprises which come under none of these heads or combine the features of several. An example is milk supply which involves both production and distribution.

Whatever the type of the State enterprise, there are two distinct stages in its life. It has to be set up and it has to be operated. While both are often difficult, in some the first is more difficult than the second. In others, the complexity of the problems to be dealt with begin to be felt only after the enterprise has been working for a period. The emphasis differs in different enterprises and in different stages in the same enterprise and one of the most important matters to which attention has to be directed is right timing and the proper handling of the problems as they arise.

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 enterprises. They can take the form of statutory corporations, limited liability joint-stock companies, committees or departments under the Secretariat. All these are instruments for achieving efficiency and economical management. They differ in their implications but the purpose remains the same. The considerations which must determine the choice of each will be discussed later.

Few questions are so controversial and arouse such great heat as State Enterprises and the possibility of the success of State enterprise. Private Enterprises While one, the larger and more vociferous, party argues that State enterprise cannot possibly be as successful as private enterprise, the other maintains that there is no reason at all why State enterprise should not be at least as successful as private enterprise. The first point of view implies that the problem has no solution, the second that the problem has no existence. Since both these cannot possibly be correct, further analysis is necessary to see where the truth resides.

Now a comparison between two systems is valid only if comparable things are judged and the judgment is by common standards. Private enterprise in its essential form has been with us since the first hunter bartered the spoils of the chase for the fruits of the soil. The history

Comparison and review

of State commercial and industrial enterprise is, in comparison extremely short. By and large, it is correct to say that private enterprise is old and established; State enterprise new and experimental. Private enterprise offers a very wide variety of instances from which the choice for comparison can be made; State enterprises are limited in number. In any case, no valid conclusion can be drawn from comparing, as is often done, the best private enterprise with the worst State enterprise. Nor indeed can private enterprise at least in this country be regarded as a model of efficiency. The bankruptcy courts are a constant reminder that businessmen can make serious mistakes in matters which are nearest their own interests and indeed there can be few uninitiated investors who have not been so unfortunate as to come across instances of inefficient, and occasionally fraudulent, management of comparatively large concerns. Say the Board of Directors of the Industrial Finance Corporation of India, the Chairman and several members of which are eminent businessmen themselves:—

“The corporation has had experience covering a period of approximately two years as a result of contact with a large number of industrial concerns throughout the country covering a variety of industries... In many cases, schemes have been prepared or embarked upon without adequate consideration of the technical and financial aspects of the proposal. It was found that in a number of cases no estimates had been prepared of the total outlay that will be necessary under the various heads *viz.*, land, buildings, plant and machinery, stores and working capital. Sometimes, no carefully considered plan of production has been prepared or advice taken from consulting engineers as to the suitability of the machinery, plant and equipment and the lay-out of the industrial unit. In some cases machinery has been purchased on considerations of cheapness instead of its suitability for the particular scheme. It is desirable that technical advice from competent consultants should be obtained before the scheme is embarked upon as such scrutiny in the initial stages of the project will bring about economies in costs and ensure that the factory works as a carefully integrated unit... Many industrial concerns have not yet begun to be cognizant of the fact that the war-time phase of a rising demand, sustained

largely by the purchases of the allied Governments in a market protected from the impact of foreign imports, is gradually drawing to an end and that the sellers' market is likely to be replaced by conditions in which increased price-resistance and the desire for improved quality are likely to be shown by the consuming public.

Many concerns, it appears, are under-capitalised relatively to the outlay required on their respective projects and have embarked on their schemes with inadequate resources. Whereas it might have been feasible during war-time for such concerns to be able to take advantage of the conditions of plethora of money then prevailing in view of the continued influx of purchasing power into circulation and the restricted outlets for investment, this is not so under the present circumstances, and these concerns are experiencing difficulties on account of the inadequacy of their resources. It is obvious that in the case of these concerns borrowing on a large scale will aggravate and not relieve their difficulties...

In some cases though the paid-up capital was larger than the amount applied for, the assets were heavily encumbered by existing borrowings. In a number of cases, the paid-up capital largely represented the value of shares issued in consideration for assets transferred by the promoters to the companies at inflated values. It was found that, in some cases, the companies had considerably underestimated their requirements and were likely to get into difficulties even with the most generous assistance that the Corporation could render. Many concerns have not made careful estimates of their total expenditure on land, buildings, plant and machinery, stores and raw materials, with the result that the implementation of the scheme has involved a greater outlay than that anticipated...

In many cases, adequate attention has not been paid to the desirability of having suitable personnel. This again is survival of the war-time phase when products of indifferent quality could be sold. It is desirable that competent technical personnel should be employed as this will ensure efficiency of the processes of manufacture with a corresponding improvement in the quality of the output and a decrease in the cost of production.

In some cases, reconditioned machinery has been purchased, life of which is of uncertain duration. It is likely that parts of such equipment will require replacement after the first few years, thereby adding to the capital costs and impairing the profit-earning capacity of the concern"

At a time when although costs have risen prices have also risen, advantage goes to the person who can make the most of the market. By selling what the buyer wants at a price which the seller commands, the selling concern can show very successful results.

Criteria.

(i) Economy

(ii) Quality

This is very different from selling what the country needs at a price which the country can afford. If, broadly speaking, private enterprises are concerned with the former and State enterprises with the latter, any comparison superficially made is likely to be of things that are not comparable. Public enterprise must be judged solely by the standard of efficiency, which implies in respect of every unit of production of goods and services, minimum cost and requisite quality. The two-fold criterion of economy and quality is not necessarily equivalent to the popular criterion of the success of private enterprise. That criterion is almost invariably profit. A concern may be inefficiently administered, its management may be corrupt, a private commission may be added to each purchase of raw material and each sale of finished goods, the expenditure may be highly inflated by all the numerous devices that come under the head of padding, the quality of the goods produced may be well below standard and yet if a profit is made and a dividend paid, very rarely will there be any questioning from any source; the concern will be considered successful, and its shares freely dealt in on the stock exchanges. There has, in fact, been little objective testing in this country of the success of private enterprise on the basis of economy and quality. In its absence, it would not be wrong to conclude that the claim of efficiency made on behalf of private enterprise as a whole is often exaggerated.

At the same time, impartial consideration of private enterprise discloses that within it there are certain factors that are conducive to economy in management and quality in production. An examination of private enterprise so as to bring out these and compare them with their equivalents in public enterprise will be useful, since the differences which emerge will be a guide to the remedies that may be available.

Lessons from Private Enterprise

To begin with, the incentives in the two kinds of enterprises are generally different. The object of private enterprise is invariably profit. While some public enterprises may also be run for profit, the object of most is public service or public security. Any private enterprise in its formative stage has continuously to keep in mind the importance of accurate estimates of cost and demand. It must take into account all the time the amount of finance available. The risk generally being that of the promoter and friends, prompt action is the rule. That as the Industrial Finance Corporation report shows some of these factors are not unoften overlooked does not alter the fact that they are inherent in private enterprise. As against these, since the public enterprise is to be financed by government, the importance of accurate estimates and prompt action is often not sufficiently appreciated. Again, for the same reason of lack of personal risk important matters are likely to be treated as routine and dealt with in dilatory fashion. [The direction and management in a private enterprise is generally more personal and has a great deal at stake in the success of the concern.] This is true as a rule in spite of the fact that many private enterprises are joint stock companies, with full-time paid employees as directors. It will also often be experienced and continuous. As against this, the management and direction of a public enterprise will generally be impersonal, and occasionally even detached. Since most public enterprises are new, often it will be inexperienced. If moreover the enterprise is run as a government department or permanent government servants are employed in it, the likelihood of changes in personnel due to transfer, promotion, etc. is also bound to be great. Again the authority running a public enterprise is not likely to be able to use his own discretion to the same extent as the director in charge of a private concern; while the latter is autonomous, the former is generally controlled. Rules and regulations in the matter of appointment, promotion, reduction, dismissal are bound to be more rigid in a government-owned and managed enterprise than in a private concern, built up on the basis of "hiring and firing". A further disadvantage from the business point of view that a public enterprise has to bear, is the insistence on government being a model employer. In other words, the social costs which a public enterprise has to bear are often much higher than those likely to be imposed on a corresponding private concern. For the latter they are less pressing, though of recent years they have begun to be important even to private concerns. The market in which private enterprise has to sell its goods is generally competitive, so that there is always a premium on alertness of mind and quickness of decision. At the same time, nothing

in the nature of a private enterprise prevents proper adaptation to suit the best buyer. Since the products of a public enterprise do not generally have to compete in a free market, there is not the same call on wideawakeness and promptness in the management. It also has to continue to sell to its consumers without regard for the best buyer. It is in the field of criticism, however, that private enterprise scores most heavily. Of the quality of the goods it produces the only criticism that there can be is from the consumer. Since he too can transfer his demand to another product, he may choose to do so quietly without offering any criticism at all. So long as there is a good dividend, the share-holder is satisfied. Accordingly once profit has been made, criticism is silent. A public enterprise, on the other hand, has to live in the fierce light of publicity. Not only is the consumer concerned with it, but also, since it is the property of the nation, the tax-payer, the citizen, the government, Parliament, all regard it as worthy of notice and are anxious to know about its working and its results. Since the object of setting it up is to satisfy some public need at a reasonable cost, large profits are not as easily made by it as by private concerns, nor will mere profit satisfy its many critics. Its results must be subjected to the two objective criteria of economy and quality.

This discussion makes it apparent that public enterprise from its very nature is subject to certain important handicaps which need not arise in private business.

The experience of other countries is also valuable in this connection though it has to be remembered that the problem in this country is not altogether the same as that in the United Kingdom, where public enterprise has advanced farthest. [The rationalisation and socialisation of existing industries is a very different matter from the establishing and running of new industries.] It is also a much less onerous task; the personnel being available and the necessary experience and technique having been developed through a long period of private enterprise. Nethertheless, some lessons can be drawn in such matters as the degree of control, the form of direction and the methods of management.

The efficient functioning of public enterprises is for this country one of the most important needs of modern times. A study of tendencies since the end of the war makes it clear that the responsibility for industrialisation is likely to be thrown more and more upon the State as

Lessons from other Countries

Importance of Problem

the years go by. Whatever the reasons for this may be, whether, as some allege, the high rate of taxation leading to the absence of capital formation is responsible, or as others, the unwillingness of that portion of the capitalist class into whose hands of recent years capital has, often illegally, passed, to put it into productive enterprise and the shaking of confidence of the ordinary small investor in the integrity of the new entrepreneur, on account of a great deal of unpleasant experience, there can be no doubt that, by and large finance for investment in pioneering, at least, will have to be provided by government. The capitalist seems to have ceased to perform his proper function of producing capital for the expansion of industry. If he does so at all, it is more likely to be for such industries as produce consumer goods with a high profit margin. But our real need is for basic industry, a long term investment with a moderate return, for only by the aid of its production can that industrialization be undertaken which will give any appreciable results in raising of the standard of living. Accordingly the burden must fall on government. The specific problem then is the administration of public enterprises so as to ensure economy in management and quality of product, taking into account the handicaps discussed above. Were these handicaps irremediable, public enterprise would necessarily be inefficient. Measures can, however, be taken to overcome, if not completely, at least in great part, all of them and a consideration of these measures forms the subject matter of what follows.

CHAPTER II

GENERAL CONSIDERATIONS

WHENEVER there is an ultimate objective as well as an immediate problem, the solution of the immediate problem must be such as not to conflict with the fulfilment of the ultimate objective. In this matter of State enterprises there is both an ultimate objective to be kept in mind and an immediate problem to be solved. The objective is to equip government, gradually but effectually, for the efficient discharge of its increasing task as participant in industry. This implies the evolution of suitable forms of control, direction and management, the formation of an expanding nucleus of suitable personnel at all levels—directors, managers, technicians etc.—and, above all, the building up of sound traditions, appropriate methods and new devices in a sphere of activity relatively untried by the State and different in aspect from ordinary governmental administration.

The immediate problem must be dealt with on lines in keeping with the general objective. That problem in its essence is to devise, with specific reference to the types of enterprises already mentioned, forms of organisation which retain the flexibility and effectiveness of the best private enterprise within the broad framework of parliamentary and ministerial responsibility. "The kernel of the problem is provision for safeguarding the national interest without encroaching upon the administrative independence of the organisations and usurping their managerial responsibility". The essentials of such an arrangement are that while it is established by government and remains within the operative sphere of the machinery of the State, it retains a large degree of autonomy.

Before pursuing questions relevant to such an organisation, such as its composition, the limits of its power, etc., it is necessary to deal at some length with two preliminary points which arise. If the most suitable instrument in respect of all or any of the types of enterprises mentioned is one outside the machinery of government, then obviously the question of an

autonomous organisation within the framework of the State does not arise. Again, if for any reason, the reality of autonomy cannot be provided in regard to the setting up or running of any particular enterprise, then also an autonomous organisation cannot be useful. More specifically, the two points are—Should all or any of the public enterprises be entrusted to private agencies on purely contractual terms without any participation in management by the State, and in what circumstances should a particular concern be set up or run as a purely departmental affair?

A view often put forward is that government from its very nature

(i) Entrustment to Private Agency suitable in some cases being incapable and illequipped for the setting up and administration of a business, if it finds itself compelled to take on such commercial and industrial responsibilities, the best thing it can do is to entrust management to private agencies.

Advocates of this view often cite the instance of other countries, more especially, America, and point out that there whatever government wants to have done in commercial or industrial matters is invariably entrusted to one or more of the many large firms available. This view is not in keeping with what has been described above as the general objective desirable in Indian conditions. Moreover, the position here is very different from that in western countries—the U.S.A. or the U.K. [As against our own very limited scope, in both these there is no lack of efficient private agencies who can take on such work. Moreover, unlike with us, there is an abundance of trained personnel for these agencies to draw upon.] Also in such countries, the question of the State making use of private agencies arises only in respect of the relatively small sector of new enterprises to be set up by the State because they are not sufficiently attractive, or involve too huge an outlay, for private industry to undertake. As already mentioned, the real problem in the United Kingdom has been the nationalisation of old, rather than the establishment of new industries by the State.

There are, however, in this country a few special cases in which

(a) Extension of private enterprise the solution of private agency not merely for technical assistance but for all managerial purposes, can with advantage be adopted. Where a proposed State enterprise is a continuation or extension of an existing private enterprise, it may sometimes be more economical for the State to permit the private enterprise to establish and manage the

State concern, provided of course, the private enterprise is prepared to participate in the risk by putting up a reasonable share of the capital.

Again, when an industrial concern is not of the type which the
 (b) Temporary need for State envisages setting up or acquiring in the
 State control near future, but which, for special reasons
 and for a temporary period, the State has felt
 compelled to take over, entrustment of management to private agency
 may be the best solution, provided again, a portion of the capital or
 working advance is put up by the private agency so that its own
 interest in the matter is ensured. Such instances are likely to occur
 when the public interest is involved because of gross mismanagement
 by those in charge of industrial units ordinarily assigned to the
 private sector e.g., cotton mills.

A third type of case in which the State might provide finance
 while handing over management to a private
 (c) Exceptional agency may be where an enterprise is so import-
 urgency ant and urgent that it must be set up immediately
 and there are very definite advantages in entrusting the task of
 management to a reputable and well-established concern which is
 already running comparable enterprises of the same kind. Here, too,
 a reasonable share of the capital should come from the private agency.

The period for which agreements of this nature with private
 agencies may be made will depend very largely on the nature of the
 industry. In no case, however, should they exceed twenty years.
 Remuneration, too, should be modestly computed, being considerably
 below the usual high managing agency scales and there should be
 special conditions regarding training of personnel so that the State
 may find no difficulty in taking over management at the end of the
 period, if it feels so inclined.

Like private agency, departmental management must be the rare
 exception, not the general rule. In many ways it
 (ii) Entrustment to is the direct negation of the requirements of
 Departmental autonomy. It militates against initiative, flexi-
 Agency suitable bility—in the sense of freedom from the usual
 in some cases administrative procedure regarding financial
 sanction, government pay scales, recruitment, dismissal, etc.—the
 business angle and business methods, in short, the setting up of that
 sound "State enterprise tradition", postulated as essential for the
 success of State enterprises and the proper solution of the immediate

problem. For, departmental management means management by one or more Administrative Departments as part of their larger routine, inevitably in conjunction with the Finance Department as part of its own routine, with an attempt in some instances to minimise the routine aspect of the disposal by entrustment to a committee formed of departmental representatives, but in every case against the background of the rules, regulations and procedure inseparable from ordinary administration and of the plenary control of Minister and Parliament, also inseparable from that administration.

In the emergency of war and in the pressing context of economic controls, departmental management of semi-commercial operations of large magnitude has, in some provinces, and sometimes over a number of years, proved fairly, and, in a few instances, even signally successful. But what has happened in extraordinary circumstances or has sometimes been made possible by the fortuitous availability of a team of exceptionally good officers working under direction equally exceptional, being at one and the same time, wise, forceful and disinterested, cannot be taken as a guide to what may be expected in the normal vicissitudes of present day administration. Nevertheless, in a few types, departmental management is inevitable. These must be defined, isolated and kept down to the minimum. The common feature of these types, as already indicated, is that it is not possible, for different reasons, to transfer the reality of autonomy in their management to a non-departmental body of persons.

The first of this class are Defence Industries. The need for secrecy, strategic importance and similar considerations render it difficult for them to be handed over to non-departmental management.

(a) Secrecy

(b) Controls

Again, the operation of economic controls and state trading, involving monopoly purchase and levy of grain and rationing have to be departmental. Their functioning is governed by a multitude of day to day considerations which take the complexion of policy in that they are commensurate with the whole field of the State's responsibilities in certain basic matters. These are in effect governmental functions and involve the use of governmental powers. Hence they cannot be entrusted to any machinery outside government. The next chapter deals in greater detail with both these types. The problem with them is to obtain as great efficiency as possible in spite of their having to remain within the framework of departmental machinery.

The third type of cases which must be dealt with departmentally arise from different considerations. These fall into two distinct kinds. The first consists of projects which, in spite of having received broad administrative approval, have not been worked out in sufficient technical and financial detail and are, therefore, not really ripe for technical and financial sanction. The second are projects which have reached the stage of technical and financial sanction but for which the requisite financial provision is not made for the immediate future and reasonably assured for the whole period until completion, so that finance will be forthcoming as and when required during the years of preparation. In other words, all these are projects the execution of which ought not to have been started. They are in reality at the stage of departmental preparation and ought to be treated as such. In private enterprise, they could be described as projects which have not yet advanced sufficiently for a company to be formed. No autonomous body appointed by the State can be expected to take over and make a success of something when it is at a stage at which the most efficient company would not think of taking it over. If any autonomous board did indeed take over such a project the result would be frustration. Though nominal technical and financial sanction may have been given, it would not cover various aspects which would exist and various contingencies which would be bound to arise. In every such instance the board would have to go up to government—Administrative Department, Finance Department, etc.—for sanction. The occasion would be seized and made use of for exercise of departmental control, which would often extend beyond the occasion itself. The board would soon find that its real position was that of an Executive Department subordinate to the Secretariat. In attempting to carry out imperfect and incomplete orders from the Secretariat, it would find itself compelled to make frequent references to and take constant orders from the highest authorities.

The same course is likely to develop when the availability of finance, as and when legitimately required, is not assured. The department, the budget, the parliament, would all come in; avenues of curtailment of expenditure would be explored; the result would be control and interference. In neither of these cases, therefore, can the reality of autonomy be provided. Without the reality of autonomy there is no place for an autonomous board. It is infinitely better that, if there are to be projects of this character, they should be handled by the department itself.

Having indicated the exceptional instances in which management of State enterprises should be entrusted to either private agency on a contractual basis or to the ordinary governmental machinery on a departmental basis, that is to say, in either case not to an autonomous authority created by the State itself, there remains that large and important residual sector of governmental industry in respect of which the most suitable solution would seem, *prima facie*, to be the creation of such autonomous authority. Ignoring variations in detail for the moment certain broad features may be discussed from the point of view of principle. The chief questions that arise are the degree of parliamentary and ministerial control over the authority, the juridical shape of the authority, the composition of the governing body of the authority, the internal management of the authority, and the protection of the consumer and the tax payer.

Need and nature of Control over the Authority

{ There is a school of thought which holds that once the management of an autonomous body has been handed over to good men, there should be no control over them. They should be left to do their best and if their best is not good enough, should be got rid of. In an autonomous authority, however, what is being sought is "a combination of public ownership, public accountability and business management for public ends". } The second is not the least important of the objects aimed at. The capital being provided by the State, the State takes the place of the shareholder in the ordinary Joint Stock Company. Consequently the management must be at least as accountable to the one shareholder as that of an ordinary Joint Stock Company is to its many. This is all the more necessary because there is one significant feature of private enterprise not shared by public enterprise. In most private enterprises the fortunes of the management are very closely linked with those of the company, involving in some cases considerable risk which brings home to the management the welfare of the business in a very personal manner. } Control accordingly there must be; at the same time control must not be of such a character as to affect the business ability of the authority and prevent it from fulfilling the ends for which it has been created. It is necessary to lay down clearly the conditions of control.

Parliament which represents both the shareholder and the consumer should obviously have an opportunity of discussing all aspects of the working and results of the authority when a budget grant is made. Whether this is original or supplementary, for capital or revenue purposes, it should be regarded as an opportunity for Parliamentary discussion. The yearly report of the working of the authority should also be submitted formally to Parliament and it should be provided that a discussion may be raised upon it by any member so desiring. Similarly there should be an occasion for discussion when the yearly accounts are submitted. The Articles of Association or Charter should always contain a provision giving the Auditor-General the power to audit the accounts of the authority. These accounts should of course be kept in proper commercial fashion. Questions also offer scope for the raising of matters concerning the authority but if they are not to prove unduly burdensome and cause interference with ordinary administration, they should be strictly limited to those matters on which the minister has responsibility over the authority. Day to day management must be left outside their scope. "A large degree of independence for the boards in matters of current administration is vital to their efficiency as commercial undertakings. A minister is responsible to Parliament for action he may take in relation to a Board or action coming within his statutory powers which he has not taken. This is the principle that determines generally the matters on which a question may be put down for an answer by a minister in the House of Commons. It would be contrary to this principle and to the clearly expressed intention of Parliament in the governing legislation if a minister were to give in replies to Parliament or in letters information about day to day matters. Undue intervention by the minister would tend to impair the Board's commercial freedom of action".

If autonomy is to be properly preserved the Minister's powers too must be strictly limited. It is of course for the Minister to appoint the chairman and members of the autonomous board. The importance of right selection cannot be over-emphasised, for no other factor will probably be so effective in making for successful working as this. Some choices will be obvious, depending on the nature of the work with which the authority is entrusted, but occasionally it may be advantageous to take imaginative risks and choose men on the basis of future potentiality rather than past performance. There is, in any

case, no room on the board of an autonomous authority for the ornamental member who often adorns the directorate of the Joint Stock Company. The Minister should also have the power to give directions of a general character in regard to matters appearing to him to affect the national interest. This is more restricted perhaps than the corresponding provision in the Damodar Valley Act which lays down that the Corporation shall be guided by such instructions on questions of policy as may be given to it by the Central Government and that the decision of the Central Government shall be final as to whether a question is or is not a question of policy, but of course everything depends upon the manner in which provisions are interpreted. (If the autonomy of the authority is to be preserved, "matters affecting the national interest" must really be interpreted strictly and not made to cover a wide variety of unimportant details), as sometimes happens. In practice, it would perhaps be as well to lay down that the authority ought to be consulted before a directive is issued.

On the financial side, the Minister's control should cover all new capital outlay for expansion even if the funds are being provided from reserves built up by the authority itself.) The Minister being the representative of both the shareholder and the consumer, his sanction is obviously desirable in such cases. So too he ought to be consulted and have the final voice in matters relating to investment, borrowing and allocation of profits. The only other matters in which the Minister need interest himself is co-ordination regarding training, research and labour relations. Such co-ordination would have to be with bodies outside the autonomous authority and the Minister would perhaps be in a better position to obtain results than the body itself.

The alternative forms for an autonomous authority are a Joint Stock Company under the Indian Companies Act and a Corporation under a special Statute. (The general principle regarding choice of form is that where the nature of the work of an authority is substantially commercial a Joint Stock Company is more suitable; otherwise a public corporation is desirable.) 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. The advantage of the corporation is that it has special legislation made for its peculiar needs; its disadvantage, that when conditions

Form of the
Authority

- (i) Company
- (ii) Corporation

alter substantially no change can be made without amending legislation. The company form is of course more flexible. It is understood that the Government of India have recently reached a decision that when a government enterprise is essentially for manufacture and sale, the Joint Stock Company form should be made use of.

Whatever the form, without suitable men at the highest level of management, the governing board or the board of directors, the likelihood of success is very little. Two broad statements may be made. Negatively, the composition of the board [should not be such as to obscure the essential condition of autonomy] that is, [it should not give rise to overlapping of responsibility or result in introduction of control and interference by the back door. Positively, the composition of the board [should be such as to subserve only one purpose, that of good and efficient direction in the public interest. From the first of these propositions it follows that the membership of the board of autonomous authorities must be closed to certain categories. That M.Ps. should not be members of such boards is necessary, not only in order to avoid overlapping of responsibility but also from the point of view of maintaining the integrity of political life. Ministers too should not be members if overlapping of responsibility is to be avoided. If they were, then indeed the autonomy of the organisation would be negligible.

Again, since control and interference by the back door must be guarded against, there is no room for departmental representatives on such bodies. The presence of departmental representatives means, in fact, the destruction of autonomy, for from the very nature of things, departmental representatives are either unable or unwilling to act in their individual capacities and must constantly refer points to their departments. Even when in exceptional cases a subsidy has to be given to an autonomous undertaking, that should not be made a ground for departmental representatives participating in internal control.

Following from the positive aspect, it is clear that there is no place on the board of an autonomous authority for the representatives of interests. Such a board is not a forum for the settling of points of difference among various interests each of which pulls its own way; its purpose being good management in the public

Composition of the Authority

(i) must be consistent with autonomy

(ii) must be consistent with efficiency

interest, its responsibilities are not to any sectional groups but to the public as a whole. In other words, it is entrusted with duties to the consumer, the employee, government and the nation and its responsibility is to discharge all these adequately. It follows from this that the board must be so selected and constituted as to combine with the special qualities of the efficient private industrialist, concern for the public interest—an outlook not necessarily to be found in the directorate of the privately financed company.] “The public corporation must be no mere capitalist business, the be all and end all of which is profits and dividends, even though it will, quite properly, be expected to pay its way. It must have a different atmosphere at its board table from that of a shareholder’s meeting; its board and its officers must regard themselves as the high custodians of the public interest. In selecting the board, these considerations must be in the mind of the Minister”.

It is not unusual for private enterprises to have on their Board^o of Directors several individuals whose principal contribution is the addition of their names to the list of directors. They are there because of their reputation. They lend weight to the concern; sometimes they help to reassure the public about the soundness of the concern. These directors are not expected to do any serious work. They are there principally for display. It would be absurd to burden the boards of state enterprises with such men. What are needed on these boards are varied talents. Administrative, business, financial, technical,—all abilities can have their place there, but what is most important is that they should work together as a team.

Boards of direction can be of two kinds. There is the functional
The Policy Board board which consists of full-time members in
and
The Functional charge of particular branches of the work and
Board (the policy board) which consists of men, full-time
or part-time, none of whom are responsible for
specialised functions as executive heads. The policy board is likely
to be more effective at least in regard to undertakings that have to
be given the Joint Stock Company form. Members of a policy board,
not immersed in detail are perhaps better able to see the picture
as a whole and to take broad decisions. Even where the under-
taking has to have the corporation shape, the policy board would
seem to be best, though in the selection of personnel, the functional
element may appropriately be given more attention in view of the

nature of the tasks a corporation is likely to be called upon to perform.

Whether the chairman or all, or some of, the members of the board should work whole-time or part-time must depend to a very large extent on the availability of suitable people. Thus suitable businessmen may not be available except on a part-time basis. It follows from the principles already stated that no government servant should be on the board at all, except on whole-time deputation to the concern itself, when for the time being, he would cease to be under the direct administrative control of the department from which he was drawn or of any other department. Clearly there is no room on such boards for part-time *ex-officio* government servants. The best solution from all points of view would seem to be a whole-time board composed of personnel drawn from both government service and business. Since one or two concerns might offer too little work for such a board, the direction of an optimum number of State enterprises might be entrusted to it. This point will be elaborated later when dealing with Civil Industries. The chairman of the board is the keyman for the enterprises concerned. Not only must drive and initiative come from him but he must, while keeping a supervisory eye on all the enterprises, make the board work together and get the best out of each member. His work is likely to be very arduous and clearly, as a rule he should be appointed whole-time; the only exception should be where it is considered essential to have a particular industrialist as chairman and he is not available except on a part-time basis

A point of some importance is whether a government servant as representative of a department should ever be appointed a member on the board of an autonomous authority. As already stated, there is strong reason for not having such an arrangement and in ordinary circumstances it would be best to avoid it. There are, however, certain special cases in which it may be advantageous for departmental representatives to be present when specific matters are being discussed. Sometimes also even a permanent arrangement of this kind might be advantageous, as for instance where the department represented is the main customer of the concern run by the autonomous authority. In such cases, the departmental representative may be permitted to be present but only for liaison purposes. He should not be a member of the Board of Directors and should have no vote.

Whole time and
Part time
Members

Departmental
Liaison

STATE ENTERPRISES

The size of the board of an autonomous authority must of course depend upon the work to be done. Where functional representatives are also included as in a corporation the number may have to be larger. Again, a board in charge of several autonomous companies or of some very large concern may have more members than one in charge of a single medium-sized or small concern. If there is a preponderance of part-time directors, then too, the number will have to be greater to make up for the shorter time most can devote to the work. It would be desirable to fix on the number of members to be appointed from the very beginning and not leave it variable. A four or five years tenure seems reasonable for service on a board and it is often desirable to arrange a staggering of appointments so that all the members should not retire at the same time and a continuity of policy and administration may be maintained. Members may be removed for misbehaviour or ill health. There should also be the power to dismiss them on other grounds but the convention should be that such power would not in normal circumstances be used; otherwise independent working might be detrimentally effected. A whole-time government servant who is deputed as chairman or member of an autonomous concern for a tenure period would of course be subject to recall. It should, however, be quite clear that such recall is not for any ordinary purpose, such as the falling vacant of a higher appointment. While it may not be necessary to pay a government servant appointed to an autonomous corporation a higher salary than he would have drawn in the normal course, there should be no attempt to restrict other persons selected to the government scale. If good men are wanted, especially from business, there should be no objection to paying sufficiently high salaries. The issues at stake, the successful running of existing government industries and further industrialisation by government, are sufficiently important to justify the grant of such emoluments as may be necessary to obtain the most suitable men. There should be no question of spoiling the ship by stinting a haporth of tar.

The internal management of an autonomous concern is a matter of great importance. The first principle to be remembered in regard to it is that the internal management must be under the control of the board and not of government. The foundations of effective management are well known. "Stated in simple terms, these canons of efficiency require the establishment of a responsible and effective

Size of the Board
and tenure and
salaries of
Members

Internal
Management

chief executive as the centre of energy, direction and administrative management; the systematic organisation of all activities in the hands of a qualified personnel under the direction of the chief executive and to aid him in this the establishment of appropriate managerial and staff agencies". The fundamental nature of management is the process of getting things done through the agency of a community, that is, fulfilling a purpose through the agency which exists for its fulfilment.

Now this cannot be properly done in the large scale organisation except on the basis of "modern scientific management". Such management is very little known in this country where efficiency, even in reputed concerns, is based generally on rule of thumb methods and continuous supervision. One of the principal tasks of the autonomous board should be the introduction of "scientific management". For this, as well as other reasons, it is essential that the General Manager and the other staff should, for purposes of appointment, discipline, promotion, etc. be under the board.

(i) Modern Technique

The personnel too must be brought up in traditions somewhat different from those of government service. While the zeal for public service must be as great as in the best government servant, in place of the caution engrained by ordinary government methods, there must be developed a resourcefulness which will enable prompt action to deal with any unprecedented difficulties that may arise. "Production must go on" should be the motto and all problems the management faces will have to be from that angle. So too there must be an understanding of the point of view of the consumer and the desire to meet it on the part of all concerned. Where dealing is in a competitive article, it would not suffice as in a government department to say "I am satisfied this is the best thing, take it". The consumer must be persuaded to consider it the best thing. It must also be brought conspicuously to his notice. Government enterprises are only too apt to produce things and leave it at that. Hence sometimes although their product may be as good as, and cheaper than that of, private firms it fails to find a market with the result that they show a loss and are even occasionally compelled to let productive capacity lie idle. There must also be no glorification of "The importance of pieces of paper". Decisions must be based on reality. These are some indications of the difference of outlook necessary. In brief, centralisation and bureaucracy must

(ii) New Traditions

be avoided and responsibility and authority must go together. The autonomous corporation must possess and create this kind of mentality and bring together a body of men and women to whom this approach will be completely natural.

To meet the personnel problem, immediate and future, it will seem best to select suitable men, managerial and technical, depending on the number of posts available and likely to be available. In view of the large expansion of government responsibility in this field, on the managerial side there might be immediate recruitment of three categories. In the age group 40-50, suitable men might be recruited from government or existing concerns for immediate appointment as general managers, and assistant general managers. To replace them in due course and provide stand-bys, another batch in the age group of 30-40 might also be taken up from the same sources and trained for a few years, doing less responsible work at the same time. The ultimate basic material will, however, be provided by taking in men with good general education between the ages of 20-25. They should have a bias towards economic and business matters. They could be given training in proper production and sale methods by attachment to good firms. It may be necessary for government to ensure that really efficient firms undertake the training of some of their young recruits. Some remuneration may have to be paid though quite a number of firms would, there is little doubt, be perfectly willing to help. It may also be necessary to send some of them abroad for special training after they have acquired experience of basic management. These men on their part should bind themselves to serve government for a period of years.

Except for permanent government servants deputed to the business side, all employees on this side should be on a contract basis, the contract being liable to termination at six months' notice as in most businesses. This is most important as an incentive to continuous effort, for with such a contract the employee will know that it is not enough for his performance to have been up to standard once but that if he wishes to keep his job, not only must he continue to keep it up to standard but must improve it. The pay scales allowed will have to take this particular aspect into account and accordingly be sufficiently attractive to compensate for it. There should be no attempt to assimilate them to government pay scales.

(iii) Recruitment

(iv) Terms of
Employment

Training on the technical side involves problems of its own. It depends upon the nature of the undertaking for which the men are needed and implies obtaining youngmen with the right equipment and making them ready in good time along with the progress of the particular project. Thus while the factory is being erected, they can get acquainted with the equipment and be ready to undertake its proper operation.

Among other aspects of internal management the most important are devices for ensuring that the product fulfills the two tests of economy and quality. As regards the first, the obvious instrument is proper cost accounting. Information from such accounting, if available promptly, will besides giving the management an excellent idea of the state of affairs as regards each important operation, enable the application of efficient control at every stage. As regards quality, statistical quality control has given good results in many manufacturing concerns abroad and has been introduced into some in this country. It furnishes a very good check at small cost and should certainly find its way into all suitable State enterprises. The maintenance of proper commercial accounts is, of course, essential. Their audit too, ought to be properly commercial. It would be an advantage to have one body concerned with such audit throughout the country, *i.e.*, a centralised commercial audit for all State enterprises under the Auditor General.

The problem of labour in State enterprises is a somewhat special one. "The industrial system", it has been said, "must satisfy the principles of justice. It must give to the worker a secure and adequate livelihood, reasonable conditions of work and a full opportunity to share in the making of conditions upon which his happiness and work will depend. He must not feel that his life is at the hazard of another man's will. He must be able by his effort to purchase for himself the means to self-realisation so far at least as these are dependent upon material factors. The authority which presides over his destiny must be an authority that is explicable in terms of moral principle". "Obviously enough", says the writer, "none of these conditions is fulfilled under the present industrial system". Now a State enterprise does fulfil some of them. If the system is to be really successful, it must attempt to fulfil all of them. In other words, apart from reasonable wages and security so

long as work is properly done, there must be ample opportunity for joint consultation and a willingness on the part of management to give information to the workers about the different aspects of the industry and its place in the national life and to welcome and report suggestions from them both in working and in amenities. Nothing gives a subordinate such encouragement as to see his ideas being welcomed, and when of merit, adopted.

At the same time, there is one great danger that has to be guarded against and that is the tendency on the part of labour to make, because the concern is a public enterprise, such demands as will render working uneconomical and unduly raise the cost of the product to the consumer. Such demands are less likely to be resisted by the management in a State enterprise than in a private enterprise. For one thing the loss is less personal; for another, the consequences of a stoppage resulting from refusal to accept such demands in, for instance, some large monopoly affecting the lives of very large sections of the citizens or an important State activity may be such as to make the management hesitate a great deal. Moreover, since the funds come from government, no question of the enterprise being driven into bankruptcy as happens in private business would arise. Accordingly a tendency may well develop for labour and management combined to put up costs and, hence, prices as against the consumer.

Special measures seem clearly necessary to protect the consumer's interest. Consumers' Councils may provide a forum for the expression of grievances, whether these are of a general type affecting a whole area or a particular type affecting an individual. A form of this council is already known in the consumers' committees appointed in some rationed areas, and there is no doubt that these have been helpful in remedying some grievances. Unless, however, full details of working, costs etc. are made available to Consumers' Councils and they contain individuals capable of examining such details and drawing proper conclusions from them, their usefulness in the matter of protecting the consumer against undue increases of price would be very limited. For some enterprises, of course, there could be price tribunals whose duty it would be to examine all rates charged and before whom anybody could complain. Such tribunals might offer valuable protection against undue charges, inferior quality and invidious preferences. For such a tribunal, however, to

Consumers' Council
and Price
Tribunal

function effectively, ultimately an objective external check of both costs and quality would seem to be inevitable. External checks Clearly, this could not be brought in suddenly or even within a short time; it would have to be gradually developed, the emphasis meanwhile being on the efficient execution of internal checks. If too ambitious a programme of external checks were attempted forthwith, it might well lead to a serious encroachment on autonomy. The best course would be to develop this side from year to year with the co-operation of the management itself.

The consumer's interest, price tribunals, external checks—all these significant points lead inevitably to the important question of pricing policy. It is essential that the community should know the cost, nor should this be in the aggregate only. The cost of each important part should also be known as otherwise inefficiency in sections of the enterprise may well remain cloaked. The cost again should be the real cost, that is, if there is any element of subsidy by the State, it should be added to the expenditure actually incurred. So, too, if there is any element of hidden taxation in the price, that is, the price is pitched higher than it should be on economic costs alone and the surplus is handed over to the State, that also should be clearly brought out. Once these have been done, the general pricing policy should be to fix such a price for the product as to enable the enterprise to "break even" over a period of years or "taking one year with another", as is sometimes stated. In other words, taking several years together the enterprise should make neither loss nor profit.

The public interest sometimes necessitates the establishment of enterprises during a period of high costs. In such cases of overcapitalisation, if an economic return is to be obtained, the price of the product must be kept abnormally high, or the State must give a subsidy towards its reduction. This subsidy may well have to become a permanent feature of some enterprises. In such circumstances, it is for consideration whether the alternative of writing off part of the capital deliberately incurred at a level known to be very high, ought not to be adopted. The advantage of such a course would be the encouragement it would give to those in charge. The feeling that they were no longer handicapped by such a tremendous burden might release in them forces that would make strongly for keenly efficient and economic management. Where, however, no question of large overcapitalisation arises but there are some special circumstances necessitating a

subsidy, such subsidy should only be for a limited number of years and subject to very specific conditions. Ordinarily, no enterprise should need such a subsidy. Again, the mere fact that a subsidy was being given should not be made an occasion for government representation on the board, that is, for bringing in what has been already described as control and interference by the back door. It sometimes happens that one part of an enterprise shows a profit and another a loss. The temptation in such cases for the management to use the profit to cover the loss is very great indeed. The public interest demands that it should be resisted. If such a course is, however, to be adopted, it should be after reference of the matter to government and its sanction. Public enterprises

Tax-element should not, as a rule, be expected to assist government finances. To tax the consumer of the particular product in order to help the revenue and hence the general tax-payer is in most circumstances wrong. Such action may, however, be permissible under sufficient safeguards where the surplus so obtained is to be used for some special purpose likely to increase the efficiency of the concern itself.

The observance of these principles and practices concerning pricing policy, subsidy and taxation will also enable the normal commercial test of profit to be applied to a State enterprise, for the accounts will then clearly disclose the real element of profit.

CHAPTER III

TYPES OF ENTERPRISES

AGAINST the background of the considerations discussed in the foregoing chapter, suggestions can now be made for the various existing types of State enterprises. The Government of India production industries on the civil side consist of several factories engaged, or proposing to engage, in the manufacture of a wide variety of articles—from locomotives to telephones, from fertilisers to railway coaches. Several of the factories have been operating for some years; some are in process of completion; and sanction for starting some has only recently been received. Some have been given the shape of Joint Stock Companies under the Indian Companies Act, while others are being managed departmentally. Even those which are Joint Stock Companies are not in reality autonomous. They have on their boards members of government or government officers acting as departmental representatives. Different ministries are concerned with different projects. The substance of autonomy is generally lacking and most of the defects due to that cause are present in greater or less degree. The best results can hardly be hoped for in these circumstances. If these industries are to be organised efficiently and made to function to the greatest public advantage, there can be no doubt that they must have real autonomy and be run on proper business lines. What this means has already been indicated. Here it will suffice to say that they must be placed under independent autonomous boards of directors which have full powers subject to the control already described.

Regarding the boards, three courses are possible. There can be a board of directors for each industry. There can be two or three regional boards, all the Government of India industries in each region coming under the board for that region. There can also be a single board for all Government of India civil industries throughout the country. There is something to be said for and against each of these proposals.

In the principles laid down about the qualifications of persons to be appointed to the boards of directors of government industries are

to be accepted, it would be exceedingly difficult to find a sufficient number of suitable men to have a separate board for each industry. Nor indeed would single industries give sufficient work for a really high-powered board. The regional board idea is attractive in that it limits the area under the control of the board and the number of men that would be needed and at the same time gives sufficient work to the directors selected. It does not, however, make for that co-ordination at the highest level which is necessary for the efficient functioning of all government industries, nor does it enable the maintenance of those common services which will be of value to all industries wherever they may be situated. These and the pool of common knowledge that would enable prompt examination of further industrialisation proposals and lead to quick action can only be furnished by a central board for all government industries throughout the country. It may be objected that in view of the diversity of the industries concerned management by one board will be difficult. The answer to that is that in government industries there can be no homogeneity, they having been started on the basis of pioneering. This objection would also apply to the Regional Board. Moreover, it is not unknown even in this country for one Managing Agency to operate successfully concerns as different as steel, soap and insurance or tea gardens, jute mills and engineering works. There is little doubt that such a board while limiting the demand for manpower would be able to bring about a vast improvement in the efficiency of all the industries placed in its charge. It should consist of five or six full-time members with a chairman. The Chairman and one member might be drawn from government, the others from business and industry. One or two exceptionally capable and experienced industrialists could be added to this board on a part-time basis. It need hardly be said that all members of the board should be men of the highest integrity. The board would in essence begin as a policy board and would have under it all the staff of all the enterprises. After experience of working, it could decide whether a functional approach would be more useful. This board could be nominated instead of the present boards of directors of the companies already in existence. If it was decided to convert the enterprises being run departmentally now into companies, this board would also be the board of directors of those companies. It would be possible in these cases of course to hand over the management to the boards without forming companies. But perhaps in view of the desirability of giving each concern a separate legal entity the better course would be the formation of companies. Such a board suitably manned would furnish for the first time a live

instrument whose principal business, undistracted by other occupations, would be to raise the efficiency of government enterprises and make them models of scientific management and business methods at their best. It could also take up the new industries contemplated. For the first time, too, there would be available a special qualified and competent body of men to view the industry as a whole, and be able to advise government on the proper programme for government industrialisation in a forward-looking manner. The questions of tenure, salaries, etc. have been dealt with in the last chapter. All that need be emphasised is the importance of proper selection and real autonomy. The concerns, that it is suggested should be placed under the board are now in charge of different ministries. Since they will all be under one board, it would be advantageous if at the government end too there was only one ministry with which the board could deal. This would enable more efficient and expeditious despatch, as also the development in government of the proper understanding and technique needed for the successful working of this experiment.

There are also in several States, production industries for which capital has been found wholly or largely by the States governments. Under the special circumstances already detailed they are particularly numerous in the former princely States of Hyderabad and Mysore. In both these, management is, as a rule, departmental, either undisguisedly or through some such device as the Industrial Trust Fund of Hyderabad. It seems clear, that an autonomous board on the lines suggested for the Government of India industries would be the proper solution for these two States also. The board need not be so large; two or three full-time suitable men should suffice in each case and it could be assisted by one or two local industrialists and businessmen of sufficiently high calibre. Production industries in other States are limited in number and it seems best to convert them into Joint Stock Companies. There should be one full-time managing director. He with two or three suitable part-time directors, would constitute the board. In all cases, of course, real autonomy would be necessary for successful working.

The Defence industries are managed departmentally by the Defence Department through the Director-Defence Industries General of Ordnance Factories, who has under him a Superintendent in direct charge of each factory. In all matters the usual government procedure is followed. Although the quality of the product from these factories is undoubtedly good, efficient management is often made extremely

difficult by centralisation, particularly in matters of finance and purchase of stores. All the remarks in the previous report of Administration, about the detrimental effects of government's financial control seem to apply with special emphasis here and the remedies suggested there seem called for. Since these industries cannot for reasons already stated be run otherwise than departmentally, it seems fairly clear that efficiency can only improve by delegating reasonable powers to the Director-General of Ordnance Factories and also to the Superintendents in charge of factories. Departmental management must be combined with as great a degree of autonomy as possible. Purchases of raw materials are at present made through the Director-General, Industry and Supplies, and the normal period before delivery is said to be about eight months. Centralisation in this respect also affects efficiency and it would be advisable to allow direct purchase. The timely supply of raw materials and the maintenance of a proper flow are important factors in efficient production. In manufacture of this nature, quality control and standard costing, as distinguished from actual costing the results of which are often not available until six months afterwards, are both of great value to the management and ought to be introduced. One way of expediting business would be a meeting once or twice a month of the DGOF with representatives of the Defence and Finance Ministries fully empowered to come to a decision, at which all pending matters could be taken up and settled, without further references up and down and continued tiresome noting. From time to time there is surplus idle capacity in these factories which could be taken up for supplying the needs of government civil departments in various directions. The quotations for such needs by these factories are, however, often higher than those of other suppliers. This is inevitable because their overhead charges are raised unduly by the specialised plant that has to be carried. The mere fact of a higher quotation ought not to be the deciding factor for placing work outside if by doing so, the capacity of government factories will remain unused. The Ordnance factory's quotation should of course be as reasonable as possible but in deciding on the contract the balance of advantage to government as a whole ought to be struck rather than a mere attempt to economise be made by the department placing the order.

The conclusion has already been reached that for State Trading schemes too departmental management is best. By proper delegation of authority to responsible officers and close cooperation between the department in charge of

the scheme and the Finance Department at every level, the work of such schemes has been done quickly and well in some States in spite of adherence to the usual government procedure. Normally, however, successful working is not likely without the adoption of a different procedure which will enable most important matters to be settled promptly by discussion rather than by noting. For internal management, daily or bi-weekly departmental meetings to which all the officials bring their difficulties and at which clear orders are passed by the head should be helpful. In dealings with the Finance Department, the committee device seems likely to prove most beneficial. All matters needing financial concurrence, sanction or advice might be taken up at a weekly meeting between the Secretary of the Department and the Secretary, Finance Department, and settled after prompt examination there and then.

The Damodar Valley Corporation furnishes the sole example in this country of a State enterprise established as a Public Corporation by an Act. The object of the Act was to secure for it the fullest autonomy subject only to the giving of directions by the Central Government on matters of policy. So anxious was Parliament to preserve autonomy that it expressly provided that any dispute between the corporation and any participating government should be referred to an arbitrator to be appointed by the Chief Justice of India. Both the Government and Parliament seem to have been convinced at the time the Act was passed that the purposes for which the corporation was created could not be fulfilled without giving the corporation ample powers which it could exercise without interference. Soon, however, after the corporation came into existence, the autonomy of the corporation seems to have become the object of considerable dislike in some governmental circles. It would almost seem as if they had not quite realised how much power was being conceded. The history of the corporation since then appears to have been a series of unedifying episodes in which, so far as one can make out, the corporation has had to use a great deal of its energies in attempting to maintain its autonomy and sections of government theirs, in attempting to reduce the corporation to the position of a department subordinate to the Secretariat. Budget grants, foreign exchange allotments—all these have furnished occasion for disputes. For thirty months after beginning operations, a Corporation charged with most immediate engineering and important works, was without a Chief Engineer. It is understood that recently it has been decided that plans prepared by its Chief

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Engineer and approved by its Consulting Engineers, three specially qualified technical men, are thereafter to be further examined by the engineering sections of the three participating governments. All in all, if an example was needed of how not to treat an autonomous corporation, this instance furnishes it. If Government is of the view that it made a mistake in having a corporation and that it would really rather do the work departmentally, it would be best to repeal the Act. If its view is that the present personnel of the corporation is not suitable for the work it has to do, it should replace it. In any case, there is no point in having a corporation and treating it as an administrative department subordinate to the Secretariat. If it is desired that the corporation should work, its autonomy must be respected. The flow of funds to it must be rational and not erratic. It must conform to a schedule and not be decided on a hand to mouth basis. Foreign exchange must be allotted to it on an annual basis and it must be left free to decide when to spend it, how much out of it to spend and for what purpose. A report on expenditure may of course be called for. The engineering decisions arrived at by it after the fullest technical advice should not once again be subjected to examination by government engineers. Annual reports are essential but the corporation's time should not be wasted in continuously having to defend its existence.

Road transport services form one of the principal public utilities that have been taken over by government in many States. They are generally run departmentally though in one or two instances boards have been set up under special Acts. In effect, these are attempts to establish public corporations, though some of the members of the boards are government officers holding other government appointments. Clearly in regard to these too, autonomy is needed for efficient working. The public corporation form seems most suitable. A full-time government official should be appointed as managing director and the rest of the board of the corporation made up by selecting part-time directors from amongst business and public men. Commercial practice in all matters including personnel and proper accounting should of course be the rule.

There remain various miscellaneous enterprises which to some extent partake of the nature of public utilities but do not entirely fall within that sphere. An example is transfer of cattle away from crowded localities and

improvement of milk supply and better distribution. Such enterprises, run departmentally, often succeed on account of the enthusiasm of those at the helm of affairs and the coordination engendered by that enthusiasm among officials lower down. In the formative stages this is no doubt extremely helpful. Its continuance, however, cannot be guaranteed. On the whole, a board on the same lines as for State transport would seem the most efficient way of managing such enterprises. In other words, the requisites are the establishment of a public corporation by an Act, the appointment of a whole-time government servant as managing director, with a small board consisting of the most suitable non-officials as part-time directors.

This report has concerned itself with certain broad features of State Enterprises that have been established in India during recent years. But these are the very features with which are associated the main problems confronting the enterprises. Reform on the lines indicated should offer a solution to many of these problems. There may then remain to be surmounted a number of special but relatively minor difficulties. These are likely to be different for different enterprises. A detailed study of these would need a much longer period than has been available; and indeed, it is possible that the organisation suggested for each type of enterprise will in the course of its functioning be better able to deal with these than the outside observer.

In conclusion, my very sincere thanks are due to my friend Venkatappiah for suggestions and analysis of much value during the month I have been engaged on this report.

BOMBAY;
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