

CONTENTS

Introduction	1—2
Part I—General Approach	2—16
1. Section 324 and Rule 11	2—8
2. Managing Agency—Pro and Contra	6—16
3. Problems of Transition	16
Part II—Findings and Recommendations	17—42
1. Summary	17
2. Cotton Textile Industry	17—25
3. Jute Textile Industry	25—30
4. Sugar Industry	30—35
5. Cement Industry	35—39
6. Paper Industry	40—42
Part III—Some Notes Towards A Policy for the Future	43—48
APPENDICES	49—61
Appendix I : Item 1—Notification regarding appointment and Terms of Reference of the Committee	49
Item 2—Press Note dated 23rd January 1965, Section 324 of the Companies Act, 1956 and Rule 11 of the Companies (Central Govt.'s) General Rules and Forms, 1956	50—52
Item 3—Section 326 of the Companies Act, 1956	53
Appendix II: Item 1—Questionnaire issued by the Committee	54—59
Item 2—List of Associations, Chambers of Commerce, Individuals, etc., who sent their views to the Committee	60—61

REPORT OF THE MANAGING AGENCY ENQUIRY COMMITTEE

INTRODUCTION

We were appointed as a Committee on 4th January, 1965 to—

“enquire into and report on and in respect of the desirability of applying the provisions of sub-section (2) of section 324 of the Companies Act, 1956 (1 of 1956) to companies engaged in established industries or any other industry or business as may be deemed fit by the Committee in this behalf”. (cf. Appendix I, item 1).

2. Needless to say, the term “established industry” is a relative one. In a developing economy exposed to the vicissitudes of change—both from within and without—there will be hardly any industry which can be considered fully established or developed in the sense that it does not have to brace itself to a steady increase in output or to an improvement in technology or pattern of production. Nevertheless, it is reasonable to assume that industries which have been established in the country over a fairly long period and which have witnessed already a substantial growth of output in relation to current total needs are in a better position to meet the challenge of expansion and change in the future. On this reckoning, we selected five industries for our enquiry, viz., Cement, Cotton Textiles, Paper, Sugar and Jute Textiles. This decision was announced in the Press Note issued on 23rd January, 1965, in which the views of interested parties were also invited (cf. Appendix I, item 2).

3. Having selected the industries to be included in our enquiry, we had to determine our general approach to the task assigned to us in the light of our interpretation of—

- (a) Section 324 of the Companies Act;
- (b) the rules framed thereunder; and
- (c) the notification that led to our appointment.

(Copies of all three are to be found at Appendix I, item 1 and 2).

The Managing Agency system has been a part of the Indian landscape now for many a decade and controversies regarding its merits and demerits have been legion. In dealing with such a well-worn and controversial subject and with a system which is so closely interlinked with many unique aspects of our society such as loyalty to family, caste and community, it is particularly important to bring the whole problem into some kind of focus, if our enquiry is not to get lost into an enticing labyrinth of irrelevancies. It is for this reason that we have prefaced our findings in respect of individual industries with a rather longish Part I of this Report which deals with a number of general considerations.

4. Our findings and recommendations in respect of the industries selected by us are outlined in Part II of the Report. In arriving at these findings and recommendations we had the benefit of replies received to a Questionnaire issued by us to a large number of managed and non-managed companies as well as important Managing Houses. In response to our general enquiry, we also received a number of memoranda from associations representing industry, labour and shareholders. After studying the replies received and the memoranda sent, we met the representatives of selected associations in Calcutta, Bombay and Delhi during the months of June and July 1965. A copy of the questionnaire issued by us and a list of the associations who represented to us either in person or through memoranda sent to us are given in Appendix II (Item 1 and 2).

5. Ours has been the first enquiry of the kind instituted under section 324 of the Companies Act of 1956. In the nature of things, once an enquiry of this kind is initiated and recommendations resulting therefrom acted upon or not, the question of where we go next in regard to the managing agency system as a whole is bound to come to the forefront. For this reason, Part III of this Report offers some suggestions on a number of issues related to the future of the managing agency system as a whole.

6. We have had the unstinting co-operation in our work of our Senior Research Officer, Shri K. D. Kale and Research Officer, Shri N. Natarajan. To them and to Shri Faqir Chand who served ably as the Secretary of the Committee for the first ten months of our work, we would like to extend our sincere thanks. Shri S. Vohra had to sever his connection with our Committee in view of his assignment abroad and his place in the Committee was taken by Shri A. V. Venkateswaran.

PART I—GENERAL APPROACH

1. Section 324 and Rule 11

7. Section 324 of the Companies Act confers powers on the Central Government to abolish managing agencies in respect of any class of industries or business. That section authorises the Central Government to declare by notification that companies engaged, wholly or in part, in such class or description of industry or business as may be specified in the notification, shall not have any managing agents. On the issue of a notification under this section, no new company in the notified industry or business will appoint any managing agent and the term of all existing managing agents of companies engaged in such industry or business on the date of such notification will expire by the end of three years from the date or on the expiry of the existing agreements whichever is earlier. Rule 11 of the Companies (Central Government's) General Rules and Forms, 1956, prescribes the procedure for the enquiry to be made into all the relevant circumstances of an industry before Government can issue any notification under section 324. When it has been eventually decided to notify any industry or business under Section 324, the draft of the appropriate notification has to be laid before both the Houses of Parliament for a period of not less than thirty days while the Parliament is in session.

8. Essentially, then, our task is to pronounce whether the managing agency system should be terminated or not at this stage in respect of all units in each of the five industries selected by us. A considerable part of our work was devoted to a discussion of the assumptions we should make and the considerations we should bear in mind in arriving at our findings. The main assumptions and considerations that we finally adopted as our guidelines can be stated briefly at the outset as follows—

- (a) There is no warrant either in the legislative history of Section 324 or in any explicit pronouncement of the Government for the assumption that the managing agency system as a whole should be terminated at some particular date in the future.
- (b) At the same time, there is warrant for the assumption that, other things being equal, other forms of management should be preferred to the managing agency system. In other words, the criterion for the abolition of the managing agency system in any particular industry is that some alternative form of management should be able to serve the interests of the companies and of the community at large at least as well as it is served (or is likely to be served) by the managing agency system.
- (c) A judgment of the kind envisaged in (b) above has necessarily to be formed primarily in the light of the contribution of the managing agency system to the industry as a whole as judged by considerations such as the record of growth, efficiency, profits, dividends, etc. in the industry and the cost of management in relation to the promotional, financial or managerial contribution of the managing agents.
- (d) It has also to be recognised that the discontinuance of the present order of things might create transitional problems and difficulties. These transitional problems and their severity would naturally vary from time to time and from industry to industry; and this is one of the main reasons why Section 324 seems to have adopted an industry by industry approach to the future of the managing agency system.

9. Since a great deal of controversy surrounds the question of the future of the managing agency system, it is perhaps relevant for us to refer in brief to the debates and discussions in Parliament which led to the inclusion of Section 324 in the Companies Act of 1956—a Section which for the first time made legal provision for the termination of the managing agency system on an industry-by-industry basis. It is well known that when the Companies Act was being debated in Parliament, there was a feeling among several quarters that whereas the abolition of the managing agency system might create a vacuum, some provision should be made for a gradual abolition of the system as it had, by and large, outlived its utility. The Joint Select Committee, for example, in the light of the evidence placed before it, took the view that the managing agency system was an anachronism in the context both of the directive principles of the Constitution and of the needs of the modern industrial structure. It, however, thought that it could continue till such time when its abolition would not create a vacuum. For this purpose, it suggested a probe by a committee before Government took steps to abolish this system under a proposed Section which later became Section 324 of the Act.

10. Various interpretations of the intention of the Joint Select Committee at the time have been offered. According to one interpretation, while the Committee was not of the view that the managing agency system should be abolished forthwith or at some specific future date, its intention was that the system should be abolished at a not very distant future date. Only the time, the pace and the manner of such abolition, according to this interpretation, were left to the Government, the manner being indicated by Section 324 (industry-wise) and Section 326 (unit-wise). (A copy of Section 326 is at Appendix I, item 3).

11. It is difficult to assert, however, that Government fully accepted the view that the managing agency system should be abolished in due course and that all that was left for subsequent decision was the time and pace of such abolition in accordance with the powers derived from Section 324 and 326 of the Companies Act. The following extract from the statements made in Parliament by Shri C. D. Deshmukh, the then Minister of Finance, would show that Government's views on this question of the eventual abolition of the managing agency system were at least not as categorical as those summarised in the preceding paragraph.

"We shall examine industries and find out whether for the industries as a whole it is necessary to continue the managing agency system. Now, it would not be reasonable to read that clause as if it was never intended to exercise that power. Neither would it be reasonable to assume that that clause is intended to enable the Government to notify all industries as industries in which no managing agents are required because, if that intention was clear today, it would have been easy to frame the bill accordingly; in other words, either not to provide for power to terminate managing agencies or to do the reverse. So the intention is what it is; to make an honest and as comprehensive an examination as possible of various industries, and in doing so, as I have just said, we shall be anxious to have the best expert advice that we can get on that matter.

Now, if that examination has been concluded and we come to the conclusion that in a number of industries there does not seem to be any need for the managing agencies, that the nation would not lose anything quite significant if we abolish them, then the next logical step would be to issue a notification and to say that after the period of notice, no managing agent will exist in that particular industry". (Lok Sabha Debates—Companies Bill, 1955 on 6th September, 1955).

12. We are inclined to think in the light of the quotation given above that there is no clear commitment on the part of the Government to the view that sooner or later the managing agency system as a whole should be abolished and that all that remains to be determined in terms of Section 324 (and Section 326) is the time and pace of this abolition. We find support for this inference in the preamble to the notification appointing our committee which reads as follows—

"Whereas the Central Government has had under consideration the question of deciding the future of the managing agency system in India etc."

13. At the same time, we feel it is legitimate to infer that on larger social and economic considerations the Government would prefer to see the managing agency system replaced by alternative forms of management, if it could be established that such a replacement would not be prejudicial to the interest of the industry and of the community in general. On the whole, therefore, we have approached our task on the assumption that while the Government has not taken a definite view on the future of the managing agency system as a whole, we ought to give the benefit of doubt in our enquiry to the feasibility and desirability of discontinuing the system in the industries that we have chosen. Apart from our interpretation of the spirit of Section 324, we feel that for reasons discussed a little later, the larger social and economic interests of the country are likely to be better served in the long run by discouragement of the managing agency system.

14. There is yet another point on which we would like to make our position clear. In some of the comments that have appeared on the nature and scope of the work of our Committee, it has been suggested that Rule 11 requires us to make a comparison between the performance of the managed and non-managed companies in each of the industry to be studied by us and to recommend the discontinuance of the managing agency system only in case we find that, on the whole, the performance of the managed companies is not as satisfactory as that of the non-managed companies as measured by criteria such as growth of production, dividends declared, bonus paid to shareholders and workers, cost of management and financial services, etc. While the performance of managed and non-managed companies as measured by these criteria is undoubtedly of relevance to our enquiry and its conclusions, we are unable to accept this particular interpretation of Rule 11 as it appears to be based on fallacious or incomplete reasoning.

15. In an industry where the bulk of the production is accounted for by companies managed by managing agencies, it is rather artificial to assume that the performance of the small number of companies outside the managing agency system represents an adequate basis for determining the consequences that might follow if the managing agency system is replaced by some other system in the rest of the field. To put it generally, the performance of the two sets of companies can legitimately form the basis for judging the usefulness of the contribution of the managing agency system only if the companies included in the two sets (managed and non-managed) are drawn at random from a very large number of companies belonging to each class of management and having, therefore, by and large, similar characteristics in all respects other than the form of their management. This is a procedure which is hardly practicable in every case in the case of an historic reality like the present form of management in a group of companies with varying age, location and other characteristics. Nor can we overlook the fact that as a result of the limitations imposed on the managing agency system, such as the total number of companies that a managing agent can manage, there has been a tendency for managing agents, who were already in existence in 1956, to retain the managing agency form of organisation for the more efficient of the companies managed by them. The present position regarding the form

*Throughout this report, we have used the term "managed company" to refer to a company managed by managing agents. A "non-managed" company is one which is not managed by managing agents.

of management in industries is, in short, very much a product of history including the effect of the administration of the Companies Act of 1956. An objective and fair assessment of the consequences that might follow if the managing agency system is replaced by alternative forms of management in any industry, cannot, therefore, be based simply or even primarily on a comparison between the record of the managed and the non-managed companies.

16. In short, our approach to the task of forming a judgment on the feasibility and desirability of discontinuing the managing agency system in the industries studied by us has focussed on the likely consequences of such a discontinuance. We have tried to assess the essential contribution of the managing agency system to the units managed by them. We have asked ourselves whether the replacement of the system by a suitable alternative form of management would create difficulties of a serious nature which could not be taken care of by suitable readjustments on the part of all concerned. We have also taken into account the general conditions prevailing in the industry, the problems likely to be faced by it in the near future and the seriousness of the challenges it has to meet, in order to judge whether the present is an appropriate time for calling upon the industry to make readjustments. In adopting this procedure, we have tried to bear in mind general developments in the Indian economy over the past decade or so, both in respect of the managing agency system and in respect of developments of a more general nature such as the growth of financial and promotional institutions, the role of the private sector and the spread of managerial talent.

2. Managing Agency—Pro and Contra

17. The managing agency system is the peculiar product of long historical evolution in this country and has assumed, therefore, a number of distinct forms at different stages of its development. Even today, the managing agency system as it exists in the country represents a large number of typical situations which need to be distinguished one from the other for analytical convenience. Some of the important types or stages may be distinguished as follows—

- (i) Members of a family and their friends pioneer a company and constitute a partnership firm to manage the company as managing agents and continue to have a considerable involvement—both emotional and financial—in the affairs of the company and take a great deal of personal interest and risk in the development of the company.
- (ii) After a period of initial progress, the company becomes more or less established; and with the passage of time, the partnership rights in the managing agency are either passed on by inheritance to a growing number of people or are sold to persons and families initially unconnected with the company. At this stage, the managing agency becomes almost indistinguishable from inherited wealth, which gets shared in a routine manner by successive generations of the expanded joint family and their friends. The personal involvement, if any, in the affairs of the company applies only to one or two of the individuals in the group, whose share in the "property" may be quite small.

- (iii) Sometimes, the pioneers of a company or their successors prove more dynamic so that in course of time, they pioneer four or five companies. Under these dynamic conditions the managing agents require a growing volume of resources and often convert themselves from a partnership to a private or a public limited company. In course of time, the share capital of the companies, as also of the managing agency firm, gets more widely distributed by inheritance or otherwise and the active management of the managing agency (and of the managed companies) comes to rest with a few persons, who may or may not be connected with the original founding family. Sooner or later, the managing agency firm acquires an essentially professional or bureaucratic character, although a large number of persons receive an essentially "unearned" share in the profits of the managing agency firms.
- (iv) A private or public limited managing agency firm might also continue to maintain its dynamism without giving up its closely knit family or community character and it may acquire management rights over a number of companies by withdrawing its investment in one company to acquire control over another or by investing its managing agency and trading profits in other companies, whether new or established. In that case, a considerable time—spread over generations—will elapse before such a managing agency will acquire an essentially public (i.e., non-family or non-communal) and bureaucratic character. Before this transpires, however, the managing agency house or group would have acquired a large degree of economic power out of proportion to the wealth or investments of the active members of the group.
- (v) Sometimes, a number of medium-sized managing agency companies or houses which have lost their dynamic momentum might combine to set their respective houses in order. Alternatively, in an industry experiencing difficulties, a number of units might combine together with a corresponding merger among their respective managing agents. The process of amalgamation would create a vast and powerful complex of companies, which would be quite capable on its own of running its affairs and of employing highly skilled technical and managerial personnel. Nevertheless, the historically constituted managing agents would continue to claim their share in the profits of the managed complex.

18. The distinctions that we have drawn above about the stages and types of managing agents are necessarily in general terms. They are, however, intended to bring out the fact that the managing agency is not something uniform or homogenous. It is this fact which gives an air of unreality to many arguments regarding its continuance or discontinuance—arguments that start from a particular image of the managing agency which is by no means universally applicable. It is this diversity again which makes it difficult to arrive at a judgment about the likely consequences of the continuance or discontinuance of the system, unless it so happens that in specific industries a particular stage or type of the managing agency system assumes a representative character.

19. Reference has been made more than once before to the desirability, other things being equal, of abolishing the managing agency system on wider social and economic grounds, and it would not be out of place to mention these larger considerations in brief. (There are primarily two considerations that argue against the managing agency system, viz., that it makes for undue concentration of economic power and that it inhibits the growth of a professional managerial class and the emergence of greater vertical mobility among those with talent, who do not enjoy business connections as an accident of birth.) Concentration of economic power is a complex phenomenon, which derives its strength from a number of deep-seated causes and is not, therefore, likely to get materially reduced in strength by action on any single front such as a change in the form of management of companies. To a certain extent, concentration of economic power may even be unavoidable or desirable in an economy which relies heavily on private enterprise. The accent of policy, nevertheless, has to be on discouragement of concentrated economic power, particularly when it is unrelated to the performance of corresponding economic functions and when it threatens to get entrenched for reasons of privilege or birth. The managing agency system can serve—and has served—as a vehicle for concentrating economic power beyond what would be justified by ownership of wealth. Given the hold of a few business houses in Indian private industry, their actual control over the affairs of the companies managed by them is not likely to be reduced materially in the short-run by a change in the form of management. But over a period, the discouragement of the managing agency system cannot but have a salutary effect in preventing undue concentration of economic power.

20. (As for the other and related larger consideration mentioned above, there is no doubt that equality of opportunity in business management and the growth of what might be called a secular and professional class of business managers would be greatly facilitated by the gradual abolition of the managing agency system.) In law, managing agency rights are not hereditary. But in practice, the son of an important member of a managing agency firm or house will inherit the position of power from the father, either by inheriting the share of the managing agency company or by being accepted as a partner. The managing agency system in large part is the manifestation of the caste system and of communal and family exclusiveness in the sphere of management. Admittedly, a particular managing agency, as noted earlier, might reach a stage where it becomes indistinguishable from a firm of professional management consultants. Equally, in a family firm, entry for outsiders would be difficult irrespective of the form of management. But with the growing need for and emphasis on management training in the country, it has become more urgent to slacken the hold of the managing agency system on available management opportunities.

21. Reference is often made to the potentiality for misuse of the managing agency system. We have not given much weight to this consideration as misuse and mismanagement are difficult to determine except on a detailed examination of individual companies—which is not within the purview of our enquiry. There is also force in the argument put to us by some of the parties that have responded to our questionnaire, viz., that control over misuse and mismanagement is the appropriate function of the Company Law Board, which is entrusted with the day-to-day administration of the Companies Act. Given the wide powers that the

Government already enjoys for regulating the activities of managing agents, the case for the total abolition of the system in an industry cannot rest on a presumption of general mismanagement or misuse.

22. The crucial question is that of the contribution of the managing agents and whether a similar contribution could be assured for the companies and for the industry in future under an alternative form of management. There seems to be general agreement that this contribution lies essentially in the (a) promotional; (b) managerial; and (c) financial sphere of the activities of the managing agents.

23. *Promotional Contributions*—Broadly speaking, new companies are promoted either by persons and groups who are relatively new to the industrial field or by business groups and companies already well established. Somebody certainly has to spend time and money in working up a new business proposition; and it is perhaps desirable that a group of resourceful persons relatively new to the industrial field should not be left with no alternative but to 'sell' their promising propositions to established groups with money for a fee. It is perhaps also understandable that new entrants to industry might wish to have an intimate association with the companies they help to promote. But in the case of true promoters of this kind, the desired form of association with a new company can be adequately provided by a managing directorship or a place on the Board of Directors. Even assuming that in exceptional cases a managing agency form of management might facilitate the marriage of true promoters with sizeable financial participation, there is no reason why a managing agency should be necessary or justified for anything longer than the initial period of growth. After that, even promoters and financiers should be content to earn the normal return on investment plus remuneration for the actual amount of management time and resources provided.

24. Where the promotion of a new company is undertaken by business houses or companies already well-established, the only question is whether in the absence of the managing agency system, there would be sufficient incentive for expansion or for branching out into new spheres of activities. Where the motive for expansion or for branching out into new spheres of activity is the desire to invest surplus funds or to respond to competitive considerations or simple dynamic urge, the available form of management would make little, if any, difference to the scale of promotional activity undertaken. The Board of Directors form of management could assure sufficient prestige and essential contact with the management of the companies a group has helped to established. Over time, the companies themselves will acquire the image in the public mind which is now enjoyed by the managing agents so that further promotion by companies should receive as much public response as is now supposed to be elicited by managing agents. Even today, there are many managed companies which are better known than their managing agents.

25. It is also noteworthy that in the promotion of new companies in recent years, particularly in the newer industries, the role of managing agents has not been important. Of the total number of non-government companies formed during 1956—65, only 1.5 per cent were managed companies, while the remainder were not managed by managing agents. In terms of authorised capital, the share of the managed companies was only 1 per cent in the total.

26. *Managerial Contribution*—(It has often been claimed that the distinctive managerial contribution of the managing agency system lies in the fact that it provides advantages of group management.) Here again, it is necessary to distinguish between the different types of managing agencies. (It will be seen, for example, from the following table that the vast majority of the managing agencies in the country (about 92 per cent) managed only one or two companies each. In their case, the so-called advantages of group management are clearly irrelevant.) Indeed a managing agency, where the income is shared by a large number of people by reasons of inheritance while the active part in management is taken by one or two persons, often comes in the way of adequate incentives for management. Since income from management has to be shared among a large group of people for historical reasons, the active partners are denied their proper remuneration. This state of affairs is likely to lead to indifference, if not mismanagement, so that replacement of managing agents by one or two managing directors would establish better correspondence between responsibility and reward.

Structure of Managing Agencies as on 31st March, 1965

(Paid-up capital in lakhs of Rs.)

No. of companies managed by each	No. of managing agents	No. of managed companies (col. 2 multiplied by col. 1)	Paid-up capital of managed companies
(1)	(2)	(3)	(4)
1	713	713	19,394
2	78	146	5,436
3	24	72	3,299
4	18	52	1,611
5	13	65	1,748
6	5	30	6,173
7	6	42	2,756
8	5	40	4,574
9	4	36	1,276
10	4	40	5,817
TOTAL	860	1,236	51,884

153,886
2

Source—The Ninth Annual Report on the Working and Administration of the Companies Act, 1956 published by the Department of Company Affairs and Insurance.

27. The situation in a large managing agency or business group, which manages a large number of companies, presents a different set of problems. Here, there is considerable force in the argument that economies of group management can take place. Whether the economies exist in all actual cases of this sort or are passed on to the companies is not so self-evident. In many cases, even large managing agents managing a vast complex maintain hardly any organisation of their own and the managing agency commission bears no relation to any reasonable remuneration for the people actually employed for servicing the managed companies. The practice is also not uncommon of charging the managed companies separately for almost every specific service rendered, so that one would be hard put to enumerate the remaining services, which can justify the managing agency commission. (Also, a more or less hereditary group of persons managing a large number of companies does not necessarily make for flexible, responsive, competent and efficient management so that group dis-economies may be as common as group economies.)

28. Over time, it should also be possible to retain the advantages of management in the event of abolition of the managing agency system. Many services at present provided by managing agency firms on a group basis to several firms could well be continued to be supplied by charging a fee. Such services may include legal advice, advice on income-tax matters, legislation and economic trends in general. In due course, one may also expect the development of professional management consultancy firms, which might render managerial services to those who pay for them, irrespective of past association or commitments regarding long-term or perpetual association in future. Some of the large managing agencies, which have already reached a mature and impersonal stage, can well convert themselves into management service companies without delay and without disbanding or retrenching their present organisation. Eventually, there might be increasing specialisation among managing consultancy firms either industry-wise or service-wise.

29. (In short, the advantage of group management prevails at present over only a limited area covered by the managing agency system. Even where a managing agency firm manages a large number of companies, it cannot be taken for granted that economies of group management prevail or that they are reflected in the profits of the managed companies rather than in the profits of the managing agency firm) In the long run, economies of group management could also be assured more satisfactorily by the development of management consultancy firms. While, therefore, there might be some cases, where genuine advantages of group management might be disturbed in the transitional period, there is not much force in the argument that, taken as a whole, the managing agency system provides substantial and irreplaceable advantages of group management.

30. *Financial Contribution*—We turn now to a consideration of the financial contribution of the managing agents. This is a problem with many facets and we shall deal with some of the important aspects here in general terms.

Sources of Corporate Funds

(Rs. in crores)

Sources of Funds	1951-55		1956-60		1961-64	
	Amount	% to total	Amount	% to total	Amount	% to total
1. Paid-up capital ..	31	7.0	120	10.8	117	11.2
2. Reserves and surplus	102	23.0	194	17.4	162	15.5
3. Provisions ..	173	39.1	310	27.8	353	33.7
4. Borrowings—						
(i) From Banks ..	26	5.9	181	16.2	154	14.7
(ii) From Statutory Financial Corpora- tions	25	5.6	9	0.8	10	0.9
(iii) From others by way of debentures, mortgages, etc	7	1.6	102	9.1	32	3.0
5. Trade dues and other current liabilities ..	16	3.6	167	15.0	151	14.4
6. Miscellaneous non-cur- rent liabilities ..	47	10.6	4	0.3	(—)1	..
7. Other sources : loans from managing agents, fixed deposits, etc. ..	16	3.6	29	2.6	69	6.6
TOTAL ..	443	100%	1116	100%	1047	100%

Source—Reserve Bank of India Bulletins (September 1957, June 1962 and November 1965).

NOTE—The coverage of the three RBI Studies in terms of number and paid-up capital of companies included in the Studies is indicated below:—

Study	No. of companies	Percent- age of paid-up capital covered
1951-55	750	66
1956-60	1,001	78
1961-64	1,333	79

The above table based on Reserve Bank's survey of non-financial non-government companies reveals a number of interesting things. Internal resources of companies form by far the largest source of company finance. The significant role of financial institutions is also clearly evident. These two sources should become even more important in view of the growth of financial institutions since 1962, greater governmental support to these institutions and a wide variety of tax concessions offered in the last Budget to encourage expansion and repayment of institutional

loans. By comparison, paid-up capital and loans from managing agents and deposits from private parties play a rather limited role. There is no doubt that the very substantial growth of the corporate sector and of financial institutions over the past decade and a half has made corporate finance increasingly independent of the managing agents and their friends.

31. The above picture relates to the entire corporate sector and does not tell us much about the possible role of the managing agents or their friends at the time of the formation of a company. We have already noted the marginal role of the managing agents in recent years in the promotion of new companies. Clearly, for smaller companies, a group of persons and their friends might still play an important part in putting up the initial finance. But this need not be deterred, as we have noted earlier, as long as the initial promoters and financiers can claim a proper share in management as Managing Directors or as Directors on the Board. Despite the increasing role played by the L.I.C., I.C.I. C.I., I.F.C., Banks and the Investment Trusts in providing initial loans, as well as underwriting functions, the part played by brokers and individual in underwriting new shares is still sizeable; but the contribution that can be attributed directly to managing agents is negligible (cf. table below). In any case, the real point is that the willingness of promoters to stake their money initially is not so dependent on their being associated with the company as managing agents and nothing else. (Equally, with growing diversification of the economic structure, most new companies require such large amounts of funds, that support of particular groups of individuals can form only a small part of total needs. The real support comes from institutions, the general public and other companies.)

Underwriting of Capital Issues during 1963-64 and 1964-65

(Rs. in lakhs)

Underwriters	1963-64		1964-65	
	Amount under-written	Percentage to total amount under written	Amount under-written	Percentage to total amount under written
1. Life Insurance Corporation of India ..	480	19.2	985	22.9
2. Unit Trust of India .. .. .	..	..	555	12.9
3. Industrial Credit and Investment Corp. of India	287	11.5	515	12.0
4. Industrial Finance Corporation	238	9.5	435	10.1
5. State Financial Corporations	233	9.3	396	9.2
6. Banks	359	14.3	296	6.9
7. General Insurance Companies	106	4.3	247	5.7
8. Industrial Development Bank of India .. .. .	..	..	106	2.5
9. State Governments	73	2.9	57	1.3
10. Investment Corporation of India	46	1.9	26	0.6
11. Brokers	630	25.2	654	15.2
12. Others including Managing Agents, Foreign Collaborators etc.	50	2.0	30	0.7
TOTAL ..	2502	100.0	4302	100.0

Source—Company Law Board.

32. We have already noted that direct loans from managing agents form only a small part of total corporate finance. Nevertheless, in view of the immediate impact on managed companies from any sudden withdrawal of such loans, we have given special attention to this aspect in the individual industries studied by us. It has been suggested that private deposits with companies—which have grown in recent years—might be withdrawn in case of the discontinuance of the managing agents. We are unable to accept this suggestion as many non-managed companies also attract large private deposits. Where the deposits are attracted by the special influence of managing agents, the terms offered at present are not likely to be relatively unremunerative so as to make for a sudden withdrawal. Nevertheless, we have studied this aspect of the matter carefully with reference to the specific industries examined in Part II of this Report.

33. The practice of the managing agents giving guarantees for both long-term and short-term loans obtained by managed companies from financial institutions has been emphasised by most of the companies responding to our questionnaire. This practice is rather peculiar to India and represents a hang-over from private money-lending practices as well as a symptom of the close ties that exist in India between the banking system and leading industrial houses. Normally, most of the needs of an industrial company for short-term finance should be for purposes, which should be thoroughly bankable in the sense that they would offer scope for giving the necessary security in kind. Personal guarantee, even when sound, can be the source of speculative abuse so that the replacement of the personal guarantee of managing agents by the security of stock-in-trade, warehouse receipts, goods in transit etc. for short-term loans would represent a welcome move both towards sounder banking and sounder financial management for companies. The fact, however, remains that not all the needs of working capital can be met by hypothecation of stocks etc. In part, and in the case of a new company, the requirements of working capital, which cannot be obtained as a secured loan can be provided for in the initial capital structure. For an established company, reserves can also meet a part of the need. Indeed, even unsecured bank loans should be based more on a cash flow analysis of the companies rather than on the personal guarantee of individuals. While we would welcome the development of the Indian banking system on these desirable lines, the banks today almost invariably insist on personal guarantees—which are given by managing agents in the case of managed companies and by Managing Directors or/and other directors in the case of non-managed companies. If the managing agency system is terminated, the banks would presumably insist on getting guarantees from Managing Directors and other Directors—an insistence, which cannot but create difficulties when the Managing Director, for example, is a professional person. While recommending a departure from the present practice of insisting on personal guarantees for bank loans, we cannot dismiss the fear of some transitional difficulties in this regard in the event of the abolition of the managing agency system.

34. Guarantee for long-term loans by managing agents in addition to the security or mortgage of the company's fixed assets is also a common practice that has grown historically and even institutions like the I.F.C. (but not the I.C.I.C.I.) have come to require such guarantees in several

cases. We had discussions, however, with the management of the I.F.C. and we understand that they do not anticipate much difficulty in regard to guarantees now in force or their future operations in the event of the abolition of the managing agency system in an industry. It was explained to us that the I.F.C. has obtained personal guarantees in the past from both managed as well as non-managed companies. Their main justification, it would appear, for obtaining personal guarantees is that they like to determine where responsibility lies in ensuring that the obligations assumed by the company are being fulfilled. Such a determination, however, does not necessarily require the existence of a managing agent. We, however, hope that financial institution will find it increasingly possible to move away from the practice of requiring personal guarantees as distinct from judgments based on the soundness of the purposes for which they gave financial assistance. Unless this is done, some transitional difficulties in the event of the abolition of the managing agency system cannot be overlooked particularly, where the new form of management would be in the hands of professional Managing Directors.

35. (Briefly, while the financial contribution of the managing agents is not generally as important as is often asserted, it has to be recognised that the abolition of the managing agency system in an industry might create financial problems for some time for some of the units. It would be advisable, therefore, for the Government to make some provision through an appropriate financial institution to help out genuine cases of distress or dislocation in a fairly flexible manner.)

36. In conclusion, our general survey of the advantages and disadvantages of the Managing Agency System would suggest that many of the advantages claimed for it are exaggerated at least in the context of established industries. At the same time, it would be equally true that in the present context, where a great deal of supervision over the operation of the Managing Agency System is exercised by the Company Law Board, many of the so-called disadvantages of the managing agency system are also exaggerated. The one real disadvantage that we see in the continuance of the managing agency system is that, in the long run, it comes in the way of the establishment of what might be called a professional managerial class based on talent rather than on birth. This is not to deny that there are many managing houses which have begun to open their doors to talented people without any family connection. Nonetheless, the process of creating a growing class of managers drawn from a wide section of society would be facilitated by discontinuance of the managing agency system wherever it can be done without harm in the short run.

37. We should add, however, that the whole question of the discouragement of the managing agency system deserves to be considered as a measure of reform which produces effect over time, rather than as a much-needed surgical operation, which restores health and vitality in a short span of time. Much of the fervour that gets attached to pleas for its continuance or discontinuance is based on rather exaggerated notions of the advantages and disadvantages that are likely to ensue both from its continuance as well as from its discontinuance. It is for this reason that transitional considerations of the nature and magnitude of the dislocation and disturbance that might be caused in the short run are of as much relevance as the so-called basic or inherent advantages or disadvantages of this system. In our judgment, the course of policy should be clear, namely, set towards the discouragement of this system. The pace to be set for the

policy, however, should be a measured one as nothing very vital is likely to be sacrificed by hastening slowly in this field.

3. Problems of Transition

38. In the nature of things, the discontinuance of an established form of management is bound to create a certain amount of disturbance and dislocation. At the very least, the time and energy of a number of managing agents will have to be devoted to making the necessary financial, legal and other arrangements for a change-over to alternative forms of management. It has been asked whether, in the present emergency, when there are many acute problems facing the country, the leaders of industry may not be spared the effort and energy involved in making such a change-over. The present state of the capital market and the uncertainty regarding the scope of expansion in the private sector in the near future in the present difficult foreign exchange situation are other temporary factors to which our attention has been drawn. There is no doubt that any decision to discontinue the managing agency system in any industry is not likely to be popular at least with large sections of the business community affected. To that extent, a further impairment of confidence in general and of confidence in the private sector in particular may well be feared as a consequence of a large scale change-over in the form of management. We have tried to bear these considerations in mind, both in selecting only five of the major industries for our inquiry, as also in our recommendations. It is difficult to predict the behaviour of the stock exchanges in the best of times. We are, however, inclined to take the view that since this matter has been under discussion over a long time, any decisions taken by the Government in response to our recommendations are not likely to impair confidence to any significant extent. If the contrary happens to be the case, however, Government and the financial institutions should stand ready as a matter of deliberate and prior decision to support the market to a reasonable extent.

39. We are glad to note that none of the parties that represented to us has said that, in the event of the abolition of the system in their industry, it would pull out its equity investment from the companies concerned. Some have claimed that the companies concerned might have to face suddenly repayment of loans received either from managing agents or from their friends. We do not consider this danger to be particularly great. If it does develop, however, Government should stand ready to provide necessary loan finance through appropriate institutions to help the affected companies to tide over their temporary difficulties.

40. It has been represented to us that the abolition of managing agents might lead to some unemployment among the staff of the managing agency houses. We have tried to bear this in mind in our examination of individual industries and are of the opinion that our recommendations are not such as to lead to any significant unemployment. Perhaps the area over which disturbance ought to be minimised—and, if possible, avoided, in the present circumstances—is that relating to our balance of payments. This, too, we have borne in mind in our recommendations.)

41. Apart from the general transitional problems referred to above, each industry, of course, will have special problems dependent both on the nature of the industry and the role of managing agents in the industry. These we have tried to take into account in our examination of each individual industry.

PART II—FINDINGS AND RECOMMENDATIONS

1. Summary

In Part I of the Report, we have indicated our general conclusion that discouragement of the managing agency system is a desirable measure of long-term reform. The larger social and economic advantages that we foresee from the discouragement of this system will assume a significant proportion over a period of time, but equally, in the short run, the discontinuance of this system in any industry will lead to some transitional difficulties. In the present economic context, when the country is faced with an emergency, when conditions in the capital market are sluggish and when there is particular need for not disturbing the sense of confidence of the private sector unduly, there is much to be said for hastening slowly in reforming the system of industrial management in the country.

2. (By and large, we favour the discontinuance of the managing agency system in the sugar, cotton textile and cement industries.) However, in keeping with our general conclusion that it would be desirable to hasten slowly in a matter like this so as to minimise disturbance to the industries concerned and the economy in general, we would like to recommend that the Government should take a liberal attitude in giving these industries a reasonable period of time over which the change-over from the managing agency system should be made. One Member of the Committee is also of the view that in the case of the Cotton Textile Industry, having regard to its present condition, a period of five years would be required to ensure a smooth change-over.

3. (We do not recommend the termination of the managing agency system in the jute textile and paper industries.) This is without prejudice to the consideration that, where circumstances in a particular unit so justify, the managing agency should be discontinued and that, as a matter of long-term policy, the Government should encourage existing units to switch over to alternative forms of management.

4. Our recommendations for the discontinuance of the managing agency system in some of the industries studied by us might have repercussions in the short-run either on the capital market in general or on the financial position of individual units affected. We would like to recommend that the Government should be prepared for a while to extend the necessary support to the market or to individual units through appropriate agencies so that the transition to a new form of management is as smooth as possible.

2. Cotton Textile Industry

5. The cotton textile industry in its modern form is now more than a hundred years old in the country and ranks as the largest single industry in terms of its contribution both to employment and output. Apart from providing for the entire clothing requirements of the country, it contributes nearly Rs. 60 crores a year to our export earnings. In recent years, as a result of deliberate policy, the decentralised sector of the industry has grown faster than the mill sector. Even so, the production of cotton yarn by mills has increased as much as 50 per cent between 1948 and 1964 and of mill-made cloth by approximately 15 per cent.

6. While, undoubtedly, the cotton textile industry is one of our oldest and well established industries, it faces today formidable problems of modernisation and rationalisation. Many of the mills operating in the country with worn-out and outmoded machinery cannot survive without extensive rehabilitation. Practically over the whole range of the industry also, the productivity of labour is low, so that the advantage of cheap labour is more than offset by lower output per person. For this reason, as well as because of the rapid technical strides in the textile field throughout the world, the Indian cotton textile industry has found it increasingly difficult to hold its own in the international market. This industry, which was known once as the classic instance of a labour intensive industry is now tending to become one of the more capital intensive industries in the richer countries. A Working Group set up by the National Industrial Development Corporation Ltd. has estimated that the requirements of the industry for complete modernisation would be Rs. 800 crores; and according to the Indian Cotton Mills Federation as much as Rs. 540 crores will be required during the six years 1965—1971. Whatever view we take about the feasibility of a modernisation programme of this order, it is clear that the period ahead for the cotton textile industry in India will be one which would require a great deal of skill in management and organisational ability as well as substantial financial resources.

7. In general, the record of the cotton textile industry in recent years can at best be termed mixed. The relations between the shareholders and the management as well as between management and labour have been good. According to a Reserve Bank of India study of 262 selected cotton textile companies accounting for 87 per cent of the total paid-up capital as on 31st March, 1961 in that industry, dividends as a percentage of net worth have been of the order of 5 to 6 per cent (during 1960—63)—a record which compares unfavourably with that of most industries in the country. According to the same study, the net worth of the 262 cotton textile companies covered in the sample amounted to Rs. 250.9 crores in 1962-63, of which roughly half was accounted for by paid-up capital and the remaining half by reserves and surplus. Nearly 44 per cent of the paid-up capital represents bonus issues indicating that there has been a rather high rate of capitalisation of reserves by way of issue of bonus shares. As for the quality of management at present in evidence in the industry as a whole, several adverse strictures in this regard have been passed recently by a Working Group for the industry set up by the National Industrial Development Corporation Ltd. As already mentioned, the industry has failed to maintain its competitive position in world markets—a phenomenon for which, however, the industry cannot be held entirely responsible.

8. Out of 720 textile mill companies engaged in the production of cotton yarn and cloth in the country as on 31st March 1964, 250 were managed by managing agents. The managed companies account for about 60 per cent of the total paid-up capital of the industry. In terms of production also, the managing agency companies account for a similar share in the total, so that the managing agency system constitutes the predominant form of management in this industry.

9. On 31st March, 1964, there were 229 managing agency companies managing in all 250 cotton companies. As many as 123 of the managing agencies were unincorporated and 77 were private companies. Only 29

of the managing agencies were public companies. As will be seen from the following table, 142 managing agents had no paid-up capital at all, 82 had paid-up capital of less than Rs. 50 lakhs and five managing agents had paid-up capital of more than Rs. 50 lakhs.)

Form of Organisation and Capital Size of Managing Agents in Cotton Textile Industry as on 31st March, 1964

(Capital in lakhs of Rs.)

Paid-up capital	Form of Managing Agencies							
	Individuals or firms		Private Ltd. Cos.		Public Ltd. Cos.		Total	
	No.	Capital	No.	Capital	No.	Capital	No.	Capital
Nil	123	..	14	..	5	..	142	..
Less than Rs. 5 lakhs	..	..	40	22	12	17	52	39
Rs. 5 lakhs to Rs. 10 lakhs	..	..	10	55	3	18	13	73
Rs. 10 lakhs to Rs. 25 lakhs	..	..	8	146	3	42	11	188
Rs. 25 lakhs to Rs. 50 lakhs	..	..	3	80	3	109	6	189
Rs. 50 lakhs and above	..	..	2	163	3	260	5	423
TOTAL ..	123	..	77	466	29	446	229	912

Source—Company Law Board.

10. (It will be seen from the table given below that of the 229 Managing Agents operating in this industry as many as 196 managed only one cotton textile mill each and nothing else. In addition, there were at least 11 managing agents, who managed only one cotton textile mill each in addition to one company in another industry.

Frequency distribution of Managing Agents in Cotton Textile Industry according to number of companies managed as on 31st March, 1964

No. of Cos. managed	No. of managing agents	Paid-up Capital of		Total No. of Cos. managed	No. of cotton companies managed	Paid-up capital of managed cotton Cos. (Rs. in crores)
		Managing Agents	Managed companies			
1	196	2.0	56.4	196	196	46.4
2	18	0.7	19.4	36	25	11.0
3	1	..	1.4	3	2	1.3
4	6	1.9	12.4	24	8	7.8
5	3	0.7	5.0	15	10	3.5
6	1	1.1	58.0	6	2	2.0
7 .. ..	..	..	..	..	..	..
8	2	1.5	37.8	16	3	10.5
9	1	0.7	6.2	9	1	0.9
10	1	0.5	29.3	10	3	3.7
TOTAL ..	229	9.1	225.9	315	250	97.1

Source—Company Law Board.

Looking at it from the other end, of the 229 managing agents concerned, there were only 6 managing agency houses, which were managing four or more than four companies either as managing agents or as secretaries and treasurers. Of these eight, four managing agency houses accounted for only one cotton textile company each. As far as economies of group management are concerned, it is quite clear that in the cotton textile industry at any rate, this consideration would apply at best to only a handful of managed companies.

11. In order to get a more detailed picture of the working of the managing agency system in this industry, we addressed a questionnaire (of Appendix II—Item I) to as many as 205 managing agents, 233 managed companies and 15 companies not managed by managing agents in this industry. We received only 59 replies from the managing agents, 106 from the managed companies and only four from companies not managed by the managing agents. The response from the managed companies was not unsatisfactory considering the fact that the 106 companies, which responded to us account for 65 per cent of the total paid-up capital of managed companies in the industry. Whether the large majority of managing agents, who did not respond to our questionnaire, had nothing significant to report or whether they were indifferent as to the nature of our findings and recommendations, there is no doubt that the 59 managing agents and the 106 managed companies which responded to us represent a sample, which shows the operations of the managing agency system in this industry in a somewhat better light than what would be justified, if we were able to base our conclusions on a more satisfactory response to our questionnaire. The observations in the paragraphs that follow, which are based on the replies received to our questionnaire, therefore, give, if anything, a more favourable picture of the managing agency system than is actually warranted. To give only one example, in our sample, 12 of the 59 managing agents, i.e. almost 20 per cent, are public companies, whereas less than 13 per cent of the total managing agents in this industry are organised as public companies. (29 out of 229).

12. The general conclusion that the vast majority of the managing agents managed only one company each is borne out in our sample also. Of the 59 managing agencies in our sample, as many as 52 managed only one cotton company each and the paid-up capital of these 52 managed companies accounted for a little over 65 per cent of the total paid-up capital of the managed companies in our sample. Five managing agents were managing two cotton companies each and two were managing three cotton companies each. No managing agent in our Sample was managing more than three cotton companies.

13. Our analysis of the 106 managed companies, that responded to us, shows that of their total paid-up capital of Rs. 63 crores, Rs. 15.1 crores or 24 per cent was held by the managing agents. This indicates a rather substantial shareholding (and voting power) on the part of the managing agents and would suggest that, in one way or another, most of the existing managing agents would be able to retain control over the companies, even if the managing agency form of management is discontinued. Apart from this, however, the financial contribution of the managing agents does not seem to be very significant as can be seen from the following table.

Total Funds of 106 managed cotton companies covered in the Sample during 1963-64

Nature of Funds	Amount (Rs. in crores)	Percent- age to total funds
		%
1. Total paid-up value of the capital of managed companies <i>not held by Managing Agents</i>	47.9	24.9
2. Paid-up value of the capital of managed companies held by managing Agents, their partners, directors etc.	15.1	7.8
*3. Reserves and surplus	63.0	32.7
4. Loans, overdraft or current account facilities from the Managing Agents to the managed companies (average for the last three years)	5.5	2.9
5. Loans from Associates of the Managing Agents	2.1	1.0
6. Loans from Banks	42.5	22.1
7. Loans from Financial Institutions	5.7	3.0
8. Public Deposits	1.0	0.5
9. Debentures	7.5	3.9
10. Loans from State Governments	0.3	0.2
11. Others	1.9	1.0
TOTAL FUNDS ..	192.5	100.00

*Estimated—It is assumed that they are equal to the paid-up capital of the cotton companies included in our Sample.

It will be seen that the direct investment of the managing agents inclusive of investment in shares and loans to managed companies accounts for just a little over 10 per cent of the total funds available to the companies. Loans, overdrafts and current account facilities from the Managing Agents to the managed companies including loans from associates of the managing agents accounted for less than 4 per cent of the total funds. Information regarding the extent of debenture holdings by the managing agents is not available. The magnitude of public deposits at 0.5 per cent of total funds is also not a significant source of finance for the managed companies. On December 31st 1964, the total indebtedness of the 106 managed cotton companies covered in our Sample to their managing agents on account of loans, remuneration etc. amounted to Rs. 4.13 crores. As against this, loans obtained from banks and financial institutions were of the order of Rs. 48 crores. A very substantial part (Rs. 45 crores) of the loans obtained from the banks and the financial institutions was guaranteed by the managing agents.

14. A survey conducted by the Reserve Bank of India in 1964 shows that at the end of 1961, the outstanding foreign investment in the entire cotton textile industry was of the order of Rs. 6.2 crores representing 3.7 per cent of the total paid-up capital of Rs. 167.8 crores of all cotton companies at work as on 31st March, 1964. The outstanding foreign investment of Rs. 6.2 crores was divided equally between direct investment in foreign controlled rupee companies and portfolio investments in private companies in India. There is no reason why the discontinuance of the

managing agency system in the cotton textile industry should lead to disinvestment by foreign investors. But even if it does, the magnitude involved cannot be considered to be large.

✓ 15. (We have already noted that the cotton textile industry is an important earner of foreign exchange for the country. Unfortunately, export earnings from this industry have not grown significantly in recent years. Indeed, India's share in world export of cotton cloth has tended to decline. While there is every need, therefore, for much greater effort to increase the competitiveness of the Indian cotton textile industry, it is difficult to argue that any change in the form of management of the industry would have any significant consequence one way or the other in this regard. Given the pull of the domestic market and the inevitability of continuing competition from a number of countries, the future of India's cotton textile exports would depend essentially on the general efficiency of the industry and our ability to keep domestic demand under check. We do not fear any decline in the general efficiency of the industry in the event of a change-over from the managing agency system in the industry.

16. Practically all the replies received by us speak of the promotional services rendered by the managing agents in the initial years without any payment. We have no doubt that many of the managing agents (or their forbears) must have performed useful promotional activities in respect of the companies managed by them in the past. We have no doubt also that during their association with the managed companies, extending in most cases over several decades in this industry, the managing agents must have been amply rewarded for whatever promotional services they rendered in the past. The important question at the present stage, however, is the role that the managing agents might be expected to play in the expansion and modernisation of the cotton textile industry over the years to come. The financial resources for the expansion and modernisation in the case of an established industry like this will necessarily come to a large extent from the internal resources of the companies and the funds borrowed from financial institutions. We cannot say that a change in the form of management from the managing agency system to, say, the system of managing directors may not have some effect on the flow of new equity investment in the industry from the families and groups intimately associated with it, at present. We, however, feel that for an established industry like this, it would be in the general social interest, if it is to turn for its fresh needs of equity capital to a greater extent to the market and to the general public. In the present conditions of the capital market, it will not be very easy for the cotton textile industry to raise much new money in the market. But over a period, a greater degree of diversification in the ownership of equity capital in this established industry cannot but be regarded as a desirable trend.

17. (It remains for us to assess the managerial services rendered by the managing agents to the managed companies and to relate these services rendered by the managing agents to the managed companies and to relate these services to the remuneration received by them. Realistically, we cannot assess the managerial contribution of the managing agents in the cotton textile industry without distinguishing between (a) the vast majority of managing agents (essentially partnership and private companies) who manage only one company each and (b) the few managing agents, who managed one or more cotton companies together with some other companies in other industries. In the case of the former, apart from

the absence of group economies and indeed any kind of organisation, which might give rise to such economies* the salient fact is that the profits of the managing agency are shared by a large number of relations and friends although the actual responsibility of management is borne essentially by one or two persons. Sooner or later, the discontinuance of the managing agency system and its replacement by managing directors is bound to bring about a situation in this industry, where the reward for managerial services will get more closely related to the actual responsibility of management and the absentee partners (often widows, old uncles and aunts) will have to be content with normal earnings on their investments. In our view, such a change would provide greater incentive for efficient management.)

18. The second category of managing agents (usually public companies managing a number of companies in different fields) occupies only a small part of the field in this industry. We examined the case of eight of the most prominent houses active in this industry, which replied to our questionnaire, and found that even they manage only 14 cotton companies so that their main interest lies in other fields. We have no reason to doubt, that by and large, the cotton companies managed by these houses enjoy good management and that economies of scale in management prevail. But equally, it would appear that the lion's share of the benefit accruing from economies of group management goes to the managing agency firms rather than to the managed companies. This is a point which is difficult to quantify as it is not possible to separate the contribution of a managing agency firm to each of the companies managed by it and relate it to the managing agency commission. Also, many managing firms are engaged in a wide variety of business other than the management of companies. However, the following paragraph refers to a few facts which might serve as a basis for a reasonable judgement on this point.

19. Of the eight leading managing agency firms with an interest in the cotton textile industry, there were five in whose case the income from managing agency commission (including commission as Secretaries and Treasurers) formed less than half of their total income. In their case, it would be artificial to argue, therefore, whether the managing agency commission was excessive in relation to the services rendered as the services rendered to the companies cannot be disentangled from the other activities of the managing agency firms. In the case of the remaining three major managing agency firms where the management commission formed 80 to 90 per cent of total income, profits before tax amounted to 36.7, 74.6 and 75.5 per cent of net worth during the latest year for which detailed balance-sheet data were readily available. Profits after tax amounted correspondingly to 29.1, 21.9 and 21.7 per cent of net worth. Judged as a return on net worth, the profits of these managing agency firms were, therefore, unusually high. It may be argued that it would be more reasonable to relate the managing agency commission directly to the cost incurred in managing the companies as it is in respect of these costs that the managing agency system is expected to provide economies of group management. In the case of the three managing agency firms, even assuming that the entire cost incurred by way of salaries, establishment charges and Directors' remuneration may be

* Of the 59 managing agents only 10 claim to maintain any organisation of their own and we are inclined to think that these 10 cases represent practically all the cases in the industry where managing agents have an effective organisation or managerial set up, which could be construed as distinct from that of the managed companies themselves.

attributed as the cost of managing the companies concerned, it is noteworthy that the managing agency commission amounted to 200 to 300 per cent of the cost of management. This implies that even on the assumption that the companies would have spent twice as much on management cost as the managing agents, the entire "saving"—and more—in management cost was reflected in the profits of the managing agents rather than in the profits of the managed companies.

20. So far, we have tried to assess the role of managing agents in the Cotton textile industry without attempting any comparison with the record of the non-managed companies in the same industry. We have already given in Part I our reasons for not attaching too much importance to such a comparison. However, we did attempt a comparison between 5 pairs of managed and non-managed companies in the industry taking all possible care to select each pair with as many common characteristics (other than form of management) as possible. Since we do not wish to exaggerate the significance of such a comparison, we note only our findings on two points. As far as profitability is concerned, there was not really much to choose between the two forms of management—equity dividend was higher in the case of non-managed companies in three out of five cases, whereas profits after tax as percentage of net worth were higher for managed companies in three out of five cases. However, managerial remuneration as percentage of net profits after charging such remuneration was invariably higher for the managed companies.

21. It would be clear from what we have stated above, that, by and large, we would favour the discontinuance of the managing agency system in the cotton textile industry. This is a well-established industry, where the managing agents have had ample time to compensate themselves for any promotional services rendered initially without charge to the companies. Whereas the industry has to face formidable problems of reorganisation, modernisation and greater competitiveness at home and abroad, we do not think that the continuance or the discontinuance of the system would make a material difference to the provision of adequate finance for this purpose. Economies of group management apply only marginally to this case; and over the vast area managed by managing agents, their removal would create a better climate over time for more efficient and business-like management. Even in the case of the few companies managed by multi-firm agents, there might be some saving in the cost of management to most companies. The nature and scale of the financial contribution of managing agents to the industry is not such as to pose any significant threat of dislocation to the industry.

22. Some difficulties and dislocation, of course, are bound to result from any change in the system of management. Thus, as long as the practice of requiring guarantees from individuals in the case of loans from banks and others is insisted upon, difficulties will be experienced particularly by units, where the managing agents might be replaced by professional managing directors not connected with previous managing agents. Conditions are also never so uniform in any industry to warrant the conclusion that a given course of action will produce net results in the same direction in all cases. The cotton textile industry is also facing a particularly difficult situation at present with threat of closure to a number of small units and possible shortage of cotton and power supply. We recommend, therefore, that the industry should be

given a reasonable period of time to make the change-over from the managing agency system. One Member of the Committee is also of the view that in the case of the Cotton Textile Industry, having regard to its present condition, a period of five years would be required to ensure a smooth change-over.

23. Although we are required to make our recommendations within the framework of Section 324, it may well be that our recommendation could be substantially given effect to under Section 326. In case the Section 326 approach is adopted, the Government will also be able to give separate attention—we do not say special attention as we have not examined the merits of individual cases—to one problem that was brought to our attention. We refer to the problem of the so-called composite companies, i.e. companies, which are engaged in the manufacture of a number of items and which cannot, therefore, be described simply as cotton textile companies.

3. Jute Textile Industry

24. (The Jute Textile Industry is India's foremost export earner contributing more than one fifth to India's total export earnings. As much as 75 per cent of the production of the industry is exported.) Although faced with severe and growing competition from Pakistan, the industry has managed, of late, to hold its own in international markets by substantial modernisation of the spinning section and by greater attention to the development of new products and markets. Internal production of raw jute still leaves much to be desired both in terms of quantity and quality. The modernisation of the weaving section of the industry has also yet to get under way. Nevertheless, the industry has been able to achieve a measure of stability and dynamism in recent years, which should stand it in good stead in meeting the competition from Pakistan and from substitute products which is not only likely to continue but indeed to grow in intensity in the coming years. The operations of the scheme to support raw jute prices at prescribed minimum levels have contributed a great deal to the stability of the industry. A great deal of effort, however, is still required for increasing per acre yields of raw jute in the country, for modernising and expanding the weaving capacity of the industry, for continued research and market development and for developing and popularising new jute products and their uses.

25. On the whole, the record of the industry when judged in the light of the difficulties experienced by it in recent years has been good. According to a Reserve Bank of India study, profitability in the industry has varied a great deal from year to year. Dividends as a percentage of net worth, for example, were only 3.5 per cent in 1961-62 and 6.7 per cent in 1962-63. In the same years, dividends as a percentage of paid-up capital were 5.9 per cent and 13.1 per cent respectively. Relations between share holders and the management and between management and labour have been satisfactory. A good part of the paid-up capital has been built up over the years by the issue of bonus shares. According to the same Reserve Bank of India study, out of the total paid-up capital of Rs. 31.9 crores during 1962-63, the size of the bonus issues was of the order of Rs. 9.87 crores (about 31 per cent). Reserves and surplus at Rs. 30.03 crores were roughly of the same order as total paid-up capital, a situation almost similar to that in the cotton textile industry.

26. (Out of the 96 companies in this industry as on 31st March 1964, 44 were managed by managing agents and the managed companies accounted for more than 70 per cent of the total paid-up capital in the industry. Many of the non-managed companies are also managed by some of the managing agents as Secretaries and Treasurers.

27. (As will be seen from the table below, out of the 32 managing agents operating in jute industry as on 31st March, 1964, 8 were individuals or firms, 10 private companies and 14 public limited companies. Eleven of the managing agents had no paid-up capital, whereas nine had paid-up capital of Rs. 50 lakhs or more.

Form of organisation and capital size of Managing Agents in Jute Textile Industry as on 31st March 1964

(Capital in lakhs of Rs.)

Paid-up Capital	Form of Managing Agencies							
	Individuals or Firms		Private Ltd. Cos.		Public Ltd. Companies		Total	
	No.	Capital	No.	Capital	No.	Capital	No.	Capital
Nil	8	..	1	..	1	..	11	..
Less than Rs. 5 lakhs.	..	..	..	..	..	..	..	..
Rs. 5 lakhs to Rs. 10 lakhs.	..	..	3	18	1	5	4	23
Rs. 10 lakhs to Rs. 25 lakhs.	..	..	1	20	3	43	4	63
Rs. 25 lakhs to Rs. 50 lakhs.	..	..	2	70	2	65	4	135
Rs. 50 lakhs and above.	..	..	3	211	6	1,010	9	1,221
TOTAL ..	8	..	10	319	14	1,123	32	1,442

From the frequency distribution given below, it will be seen that of the 32 managing agents, 14 managed only one company each, whereas 13 managed four companies or more each or a total of 91 companies of which 24 were jute companies. Seven of the managing agents managed between 7 to 10 companies. In terms of paid-up capital, the 24 managed companies, which formed a part of a larger complex, accounted for Rs. 18.29 crores, as against Rs. 4.76 crores accounted for by the 14 companies managed by one managing agent each.

Frequency Distribution of Managing Agents in Jute Industry according to number of companies managed as on 31st March 1964

No. of Cos. managed	No. of managing agents	Paid-up capital of		Total No. of cos. managed	No. of Jute cos. managed	Paid-up capital of managed jute companies (Rs. in crores)
		Managing Agents	Managed companies			
(Rs. in crores)						
1	14	14	4.76
2.	3	3	1.52
3	2	3	1.21
4	1	2	1.06
5	5	8	3.88
6
7	1	1	2.89
8	2	4	2.38
9	1	4	2.88
10	3	5	5.20
TOTAL		32	44	25.78

28. (On the whole, the claim that managing agents provide group management seems to be better substantiated in the case of the jute textile industry than in most other industries.) This is all the more so in view of the fact that the same group of managing agents also manage a number of other companies as secretaries and treasurers. One of the major managing agency houses in this industry for example, managed 10 companies as managing agents and 14 as secretaries and treasurers; another managed 8 companies as managing agents and 10 as secretaries and treasurers; and a third managed 10 companies as managing agents and 9 as secretaries and treasurers.

29. We addressed our questionnaire to 23 managing agents, 42 managed companies and 15 companies not managed by managing agents and received replies from 12 managing agents, 20 managed companies and 7 non-managed companies. The managed companies that responded to us account for more than half of the total paid-up capital of the managed companies in this industry.

30. From the replies received from managing agents, it would appear that the partnership form of organisation is not very popular with the managing agents, in this industry. Of the 12 managing agents only one was organised as a partnership, six as private companies and five as public companies. Of the same 12 managing agents,

three were managing only one jute company each and nothing else, whereas at the other end seven managing agents were managing between 5 to 10 companies in various industries. Apart from the diversity of industries managed by the leading managing agency houses operating in this industry, there is also the fact that these managing agents are engaged in a variety of non-management activities such as general trading, insurance, shipping agencies, selling agencies, investment holding etc. It would, therefore, be fair to presume that whereas group management operates in this industry to a greater extent than in the case of the cotton textile or the sugar industry, for example, any economies resulting therefrom relate more to general managerial services rather than to the kind of economies that might be obtained by managing a number of units in the same industry. Of the managing agents, who responded to our questionnaire, for example, only three managed three or more than three jute companies each either as managing agents or as secretaries and treasurers. Nonetheless, the general conclusion, namely, that a sizeable part of the jute industry is managed by managing agency houses, which can lay a greater claim to group management than managing agencies in most other industries appears justified. Several of the more important managing agencies in the industry have also perhaps more of a professional and bureaucratic look about them than that of an extended joint family.

31. We have found it even more difficult in the case of the managing agents in this industry to relate the managing agency remuneration received to the benefits that the companies might have derived by way of economy in obtaining a number of common services, as well as in the form of advice or entrepreneurship of individuals, whose services were remunerated in no other way by the companies concerned. This is so, both because of the large variety of the common services performed by the managing agents, as also on account of the large variety of business done by these agents. Nevertheless, on the whole, it would not be unfair to infer that in this industry also, economies of group management are perhaps reflected more in the net profits of the managing agents rather than in the profits of the managed companies.

32. The total paid-up capital of the 20 managed companies, which replied to our questionnaire comes to Rs. 13.19 crores. Out of this, the managing agents, their directors, partners, friends etc. hold shares of the paid-up value of Rs. 3.32 crores, which is slightly over 25 per cent of the paid-up capital of the managed companies. The financial contribution of the managing agents in the form of equity participation in the companies controlled by them, therefore, is sizeable. However, the same cannot be said of their financial contribution in other forms. Loans from managing agents and their associates, for example, were only of the order of Rs. 1.7 crores in our sample as against loans from banks of Rs. 17.85 crores and from financial institutions of Rs. 79 lakhs. There was no evidence in our sample of the managed companies receiving public deposits. As usual, practically all the loans from the banks and the financial institutions were guaranteed by the managing agents.

33. According to a survey conducted by the Reserve Bank of India in 1964, the outstanding foreign investments in the jute industry as at the end of 1961 were of the order of Rs. 11.8 crores representing about 33 per cent of the total paid-up capital of all jute companies at work as on

31st March 1964. Of these, Rs. 9.8 crores was by way of direct investments in foreign branches, Rs. 0.4 crores in foreign controlled rupee companies and Rs. 1.6 crores by way of portfolio investments in companies in India. Investment in foreign branches is not connected with the managing agency system and should not, therefore, be affected by any change in the system of management in the industry.

34. A Reserve Bank study of the working results during 1963-64 of 52 jute textile companies—31 managed by managing agents, 12 managed by secretaries and treasurers and 9 not managed by managing agents—shows the following picture in regard to profitability:—

	Companies managed by managing agents	Companies managed by secretaries and treasurers	Companies not managed by managing agents
1. Gross Profits as per centage of sales	8.6%	7.6%	8.5%
2. Gross profits as per centage of total assets/liabilities	11.3%	10.2%	10.5%
3. Profits after tax as per centage of net worth	9.0%	7.7%	15.7%

(The paid-up capital coverage of the study was about 75 %).

It will be seen that, by and large, both the managed and non-managed companies have been equally effective and, if anything, the companies not managed by managing agents showed better results. For the reasons already mentioned, however, we would not like to attach too much importance to such a comparison.

35. In our questionnaire, we had sought the views of the managing agents on the likely consequences of the discontinuance of the managing agency system. The replies received from the jute textile industry referred to some matters, which were not referred to by and large in replies received similarly from other industries. Our attention, for example, was drawn to the possibility that the managing agents might be forced to dispense with the services of a number of highly qualified experts and a large number of clerical and subordinate staff allocated to work connected with the managed companies. It was also suggested that the termination of the present state of affairs in which a group of more or less professional managers manage a number of companies might lead to amalgamation of manufacturing units into near-monopolies by powerful economic groups to the detriment of a large number of small shareholders, who will be powerless to defend themselves against large scale manipulations aimed at company take-overs. During our discussions with the representatives of the Associated Chambers of Commerce in Calcutta, we tried to get some further details regarding these two contentions. We were, however, unable to get information or opinions of the kind which could enable us to assess how serious these two possibilities are. On the whole, we are inclined to discount them. Given the professional nature of the larger managing agency houses in the industry and the diverse functions they perform, it should not be difficult for them to reorganise themselves as service companies, thus retaining the staff, which cannot be absorbed by the companies themselves. As for the danger of undesirable amalgamations, we assume that the Government would be alive to this danger in the normal course of things.

(36. We are, however, impressed by one consideration which was brought to our attention in a number of replies and in oral presentations. This relates to the apprehension, that the severance of the links between the managing agents and the managed jute companies might undermine the jute industry's export effort. The jute industry has been exporting now for over 100 years and many of its present markets are as long-dated. Strong trading connections have been established with overseas buyers, many of whom rely on the name of the managing agency house. To cut across these trading links by abolishing managing agents, we were told, would be to disregard a natural development, which has been of India's gain in her jute goods export trade. Apart from this, it was represented to us that the jute textile industry has only lately been showing greater signs of confidence and that the present time, when it still had formidable problems of research, market development and modernisation to tackle, to enable it to hold its own against severe competition from Pakistan and from substitute products, was not the most appropriate time for ordering a change-over in the predominant system of management in the industry. While we cannot accept the position that the jute textile industry cannot maintain its export effort without the continuance of the managing agency system, we are impressed by the consideration that a cautious attitude in avoiding disturbance would be particularly justified in the case of a predominantly export-oriented industry which has difficult problems to tackle and which contributes so substantially to the country's export earnings.)

37. (Briefly, the general position in the jute textile industry is not very different from that in the other industries studied by us excepting perhaps in one or two respects. Group management and a more or less professional spirit of management prevail in this industry to a somewhat greater extent than in other industries. More important, the industry's importance in our export effort and the particularly severe competition facing it argue in our judgment in favour of as little disturbance as possible to this industry.) This is not to say, however, that even in this industry there might not be a case for discontinuing the managing agency form of management in individual cases in the light of special circumstances that might apply to these cases. Nor do we wish to convey that even in this industry the Government should not, as a matter of long-term policy, encourage existing managing agents' to switch over to other forms of management. But we do not recommend that the Government should force the pace in terminating the managing agency system in this industry at this stage.

4. Sugar Industry

38. Although the sugar industry is one of the older industries in the country, it has continued to make significant progress in recent years. Since the beginning of the planned era in the country, sugar production has more than doubled and at present the industry is able to contribute its share in the country's export effort. The bulk of the production of sugar is accounted for by joint stock companies. Cooperative factories, however, have begun to assume an increasing role and these account at present for nearly 1/3rd of the total paid-up capital in the industry and a little over 1/5th of total production. In terms of the present licensing policy, cooperative societies are being given preference over joint stock companies in the establishment of new units, although existing units in the corporate sector are being permitted to expand and rationalise their capacity.

39. The high cost of sugar-cane and competition from Gur and Khandsari units are the main problems that concern the industry. There has been significant progress in the production of sugar machinery in the country so that, given adequate raw material supplies at reasonable prices, the sugar industry should find little difficulty in meeting the growing demands of both internal consumption as well as exports.

40. The general record of the sugar industry as judged by growth of production, relations between the companies and the shareholders as well as between management and labour can be termed satisfactory. According to a Reserve Bank of India study, dividends declared by 79 sugar companies included in their Sample ranged from 9.7 per cent in 1962-63 to 13.9 per cent in 1960-61 and dividends as percentage of net worth from 5.5 per cent in 1962-63 to 7.5 per cent in 1960-61. This record of profitability does not compare unfavourably with that of Indian industry in general.

41. As may be expected in the case of an older and well-established industry, the managing agency form of management predominates in the sugar industry. Out of 192 joint stock companies at work as on 31st March 1964, 66 were managed by managing agents and the managed companies accounted for nearly 2/3rd of the paid-up capital in the industry in the corporate sector. The share of the managed companies in production was also of a similar order, although it must be noted, that taking the corporate and the cooperative sectors together, the managed companies' share in total production would be just over half of the total. Most of the managed companies are over 20 years old.

42. 66 managed companies as on 31st March 1964 were managed by 51 managing agents, of whom 16 were individuals or firms, 27 private companies and only 8 public companies. 18 of the managing agents had no paid-up capital, 19 had paid-up capital of less than Rs. 5 lakhs and only 3 managing agents had paid-up capital in excess of Rs. 50 lakhs.

43. As will be seen from the table given below, of the 51 managing agents, as many as 33 managed only one sugar company and nothing else.

Frequency Distribution of Managing Agents in Sugar Industry according to number of companies managed as on 31st March 1964

No. of cos. managed	No. of managing agents	Paid-up capital of		Total No. of cos. managed	No. of sugar cos. managed	Paid-up capital of managed sugar companies (Rs. in crores)
		Managing Agents	Managed companies			
(Rs. in crores)						
1	33	1.4	17.8	33	33	14.3
2	7	0.7	6.4	14	8	4.8
3	3	0.8	2.8	9	6	1.7
4	2	0.7	2.7	8	2	1.0
5	1	..	1.1	5	2	0.4
6	1	..	0.8	6	4	0.5
7	2	0.2	20.6	14	3	7.2
8	..	..	..	..	..	..
9	2	1.2	9.3	18	8	2.2
10	..	..	..	..	..	..
TOTAL	51	5.0	61.5	107	66	32.1

Only 8 managing agents managed 4 or more companies or a total of 51 companies of which 19 were sugar companies. Even of these eight, three managed only one sugar company each and another three, two sugar companies each. There were in fact, only two managing agents, who can be said to be engaged primarily in the management of a number of sugar companies. One of them managed six sugar companies together with 3 others and another managed 4 sugar companies together with 2 other companies. Altogether, group management could hardly be said to be a significant feature of the managed sugar companies.

44. We addressed a questionnaire to 59 managed companies, 43 managing agency companies and 15 non-managed companies and received replies from 28 managed companies, 13 managing agents and 7 non-managed companies. The managed companies that responded to us account for roughly 1/3rd of the total paid-up capital of similar companies. The response to our questionnaire cannot, therefore, be considered to be satisfactory, although we feel that, as in the case of the cotton textile industry, the units that replied to our questionnaire represent perhaps the better part of the companies under our purview.

45. Out of the 13 managing agents from whom we received detailed replies, 3 had no paid-up capital, one a paid-up capital of Rs. 1,000 another of Rs. 5,000 and only two at the other end, who can be said to have sizeable paid-up capitals of their own. 7 out of 13 managing agents managed only one company each and 3, two companies each, whereas only two managed a number of companies both as managing agents and as secretaries and treasurers. As may be expected 7 out of the 13 managing agents maintained no separate organisation to assist them in rendering services to their managed companies. Another 4 seem to be maintaining offices with a very small staff, details of which were not given. It is only in the case of two of the managing agents that anything like an extensive centralised administration was maintained. Both these managing agencies are engaged in the management of a variety of companies as well as in miscellaneous trading and other business, so that it is difficult to relate their contribution to individual companies managed by them or to apportion that part of their central organisation which could be said to be required primarily for the management of different companies. The bulk of the services rendered by the centralised organisation to the managed companies seem to be charged for separately in any case so that, at best, the managing agency remuneration can be said to be a reward for the advisory and entrepreneurial services rendered by the individual directors of the managing agency firms concerned. During the year ended 31st March 1964, one of the managing agents collected a total managing agency commission of Rs. 19.54 lakhs from the companies managed by them. The managing agency has 5 directors. Even if we disregard the fact that these five directors could not have been devoting all their time and attention exclusively to the management of the companies concerned, and even if we assume that the services rendered by the centralised departments to the managed companies were rendered at a saving in cost to the companies, it is difficult to avoid the inference, that the managing agency commission was out of proportion to those actual services rendered for which no separate charge was made to the companies. The other managing agency, which in addition to managing 17 companies as managing agents and secretaries and treasurers does extensive business of its own

as exporters of coal, iron ore etc. and importers, assurance agents, stock-brokers, financiers etc., is managed by three directors and the managing agency commission collected by them was Rs. 26.19 lakhs. Here again, granted that economies of group management were secured by the managed companies in respect of the services purchased from the centralised organisation maintained by the managing agents, it is difficult to avoid the impression that the real advantage of all these economies went mainly to the managing agents in the form of a managing agency commission which was out of proportion to the time and energy of the managing agents concerned, for which no other separate payment was received.

46. In the case of the 28 managed companies from which we received replies, the managing agents were holding shares to the extent of 4.7 per cent of the total paid-up capital of the companies. Taking into account the shares held by the partners and directors etc. of the managing agents, their total holding came to about 15.5 per cent. As against this fairly significant holding of paid-up capital (and the consequent control over voting power), the table given below shows that the financial contribution of the managing agents in other forms was not very significant. Loans, over-drafts and current account facilities from the managing agents to the managed companies (average in the last three years reported) amounted to only Rs. 55 lakhs, with another Rs. 146 lakhs obtained by way of loans from associates of the managing agents. As against this, loans obtained from banks were of the order of Rs. 19 crores and those from financial institutions, Rs. 2.91 crores. Public deposits do not seem to be significant in the case of the managed sugar companies in our sample. The bulk of the loans obtained from the banks and the financial institutions, of course were guaranteed by the managing agents.

Total Funds of 28 managed Sugar Companies covered in the Sample during 1963-64

Nature of Funds	Amount	Percentage to
	(Rs. in crores)	total Funds
1. Total paid-up value of the capital of the managed companies <i>not held by the managing agents</i>	8.74	18.7
2. Paid-up value of the capital of the managed companies held by the managing agents, their partners, directors, etc.	2.21	4.7
*3. Reserves and Surplus	10.95	23.4
4. Loans, overdraft or current account facilities from the managing agents to the managed companies (average for the last three years)	0.55	1.2
5. Loans from Associates of the managing agents	1.46	3.1
6. Loans from Banks	19.05	40.7
7. Loans from Financial institutions	2.91	6.2
8. Public Deposits	0.22	0.4
9. Debentures	0.65	1.4
10. Loans from State Governments	0.02	0.1
11. Loans from other non-specified sources	0.05	0.1
TOTAL FUNDS	46.81	100

* Estimated. It is assumed that reserves and surplus are equal to paid-up capital of the sugar companies included in our sample.

47. Needless to say, the sugar industry even in the corporate sector will need funds for expansion over the years to come. Although it is the policy of the Government to encourage sugar production in new cooperative factories, the existing factories will need to expand and to modernise. By and large, however, the promotional and entrepreneurial qualities required for the expansion and rationalisation of sugar mills cannot be considered to be of an exceptional nature. Nor is there reason to believe that the finance required for this purpose would come to any significant extent from the managing agents, if they are allowed to continue their association with the companies concerned. (The bulk of the finance required for expansion will have to come inevitably from the internal resources of the companies concerned and from borrowing from financial institutions. As in the case of the cotton textile industry, we also feel that a greater degree of diversification in the ownership of equity capital in an established industry like the sugar industry will not be contrary to the general interest. We are, therefore, unable to conclude that the promotional or financial resources required for the expansion of the sugar industry will be diminished to any significant degree by the discontinuance of the managing agency system in this industry.) Some transitional difficulties in regard to bank finances, however, cannot be ruled out as long as personal guarantees are insisted upon particularly in cases, where managing agents are replaced by professional managing directors not connected with erstwhile managing agents.

48. According to a Reserve Bank of India study, total foreign investment outstanding in the sugar industry at the end of 1961 was Rs. 7.2 crores of which Rs. 5.3 crores was by way of direct investment in foreign branches, Rs. 0.6 crores by way of direct investment in foreign controlled rupee companies and Rs. 1.3 crores by way of portfolio investments in companies in India. (The managing agency system is not relevant to investments made in foreign branches as these branches are not managed by managing agents at all. There is no reason to believe that the remaining small amount of foreign investment would be affected by any change in the system of management in the sugar industry.)

49. (We have already mentioned that the sugar industry has emerged as a significant earner of foreign exchange. The export of sugar has had to be heavily subsidised by Government and the bulk of the exports in the nature of things take place in response to contracts negotiated by the Government with foreign governments and permitted under international agreements. There is no reason to believe that the export prospects of the sugar industry would be affected by the discontinuance of the managing agency system in this industry.)

50. (For the reasons already mentioned earlier, we do not believe that it is meaningful to assess the contribution of the managing agents to the sugar industry on the basis of a comparison between the record of the managed and the non-managed companies.) Nevertheless, we did make a comparative study of the record of five managed and five non-managed companies taking to select each pair with as many common characteristics as possible. In respect of profitability, we found that two managed companies declared higher dividends than the corresponding non-managed companies and the same was true in the reverse direction for two of the non-managed companies. In the case of one pair, the equity dividend

declared was the same. Profits after tax as a percentage of net worth, however, were higher in the case of managed companies for all the pairs. On the other hand, managerial remuneration as percentage of net profits after charging such remuneration was substantially higher in all cases in regard to managed companies. (In this context, it is also relevant to note that the record of the cooperative sugar factories in recent years has compared favourably with that of sugar companies in the corporate sector)

51. (In brief, our conclusion is that the discontinuance of the managing agency system in the sugar industry should have little or no adverse repercussions.) There is no reason to believe that the future growth, profitability or competitiveness of the industry will be affected by the discontinuance of the managing agency system. Given the long-term advantages that we see in the discouragement of the managing agency form of management, we have, therefore, no hesitation in recommending, that, by and large, this form of management should be discontinued in the sugar industry. Since the large majority of managing agency agreements in this industry have to be renewed in the near future, it may be possible to give effect to our recommendation substantially/ by resort to section 326 rather than by resort to section 324.

5. Cement Industry

52. (In an era of planned economic development, the cement industry, which produces one of the basic investment goods, has naturally witnessed a remarkable growth in production and capacity. The production of cement has increased from 3.29 million tonnes in 1951-52 to 9.78 million tonnes in 1964-65 and this increase has been continuous without any decrease in any year.) The rate of growth of production has slowed down from 41.1 per cent during the first plan period and 54.5 per cent during the second plan period to only 18.1 per cent during the first four years of the third plan. (Shortage of foreign exchange, the poor quality of lime-stone, low labour productivity and lack of adequate rupee resources are among the important factors accounting for the somewhat slower rate of growth of the industry in recent years.) Decision have, however, already been taken to accelerate the rate of growth of the industry substantially during the next plan period; and the capacity of the industry is expected to be virtually doubled during the next five or six years.

53. On the whole, the general performance of the industry can be said to be satisfactory. Relations between the shareholders and the management and between management and labour have been reported to be cordial. A Reserve Bank study in respect of 15 cement companies accounting for 91 per cent of the total paid-up capital of the entire industry as at the end of March 1961, shows that dividends as a percentage of paid-up capital varied from 9.3 per cent to 9.8 per cent between 1960-61 and 1962-63, whereas profits after tax as percentage of net worth varied from 7.8 per cent to 9.4 per cent during the same period. This record of profitability compares favourably with that of most other industries. The same study also shows that during 1962-63, the net worth of these 15 companies amounted to Rs. 58.53 crores (paid-up capital of Rs. 40.57 crores plus reserves and surplus of Rs. 17.96 crores). Against this, the net fixed assets stood at Rs. 57.24 crores. The proportion of reserves and surplus to paid-up capital is rather small for a growing and relatively established

industry of this kind. However, it would appear that almost the entire reserves have been utilised for financing the fixed assets of the companies. Of the total paid-up capital of Rs. 40.57 crores, the size of the bonus issues was of the order of Rs. 2.1 crores only. The industry, however, has had a good record of payment of bonus to workers. The average amount of bonus paid to workers during 1962—64 came to Rs. 65 lakhs.

54. As on 31st March 1964, there were 42 cement companies of which 12 were managed by managing agents. The paid-up capital of these 12 managed companies however, accounted for 84.6 per cent of the total paid-up capital of all cement companies. The managing agency form of management, therefore, predominates in this industry. It is also noteworthy that only one managed company which operates several cement plants accounts for 41.3 per cent of total paid-up capital and about 45 per cent of total production in the entire industry.

55. Our questionnaire was addressed to eleven managing agents, twelve managed companies and fifteen companies not managed by managing agents. We received replies from seven managing agents, eight managed companies and three non-managed companies. The eight managed companies that responded to us account for more than 80 per cent of the paid-up capital of the managed companies in the industry. Our sample, therefore, represents adequately the contribution of the managing agents to this industry.

56. It will be seen from the table given below that of the seven managing agents in our sample, none had adopted the partnership form of organisation, five were private companies and two were public companies. The two managing agents organised as public companies, however, managed one cement company each accounting for about 72 per cent of the paid-up capital in our sample.

Form of Organisation of the Managing Agents	No. of managing agents	No. of cement Cos. managed	Total number of companies managed	Paid-up capital of	
				Managing Agents	Cement Cos. managed (Rs. in crores)
1. Partnership .. ..	..	..	..	..	..
2. Private Cos.	5	6	6	0.09	8.38
3. Public Cos.	2	2	2	0.12	21.87
Total	7	8	8	0.21	30.25

57. Of the total number of 12 managed companies in the industry, ten were managed by ten different managing agencies i.e. one managing agency managing one cement company each. Only one managing agency firm was managing two cement companies. *Prima facie*, therefore, the advantages of group management can hardly be said to apply in this industry and in the case of one of the managed companies, which runs several cement plants, the company itself is in a position to secure all the economies of management that a group can be capable of. Judging from the detailed replies that we got from seven of the managing agents, it also appears that none of these were managing any other company as secretaries and treasurers. In short, except for one managing agent, all the

other managing agents were managing only one cement company each and nothing in any other industry. Thus, the managerial interests of the principal managing agents covered in our sample are confined to the cement industry only. None of the managing agents was also engaged in any business other than the management of companies. None of the managing agents was also maintaining any centralised service organisation for rendering services to the managed companies. It would appear, therefore, that the directors of the managing agency firms were rendering only their personal advisory and entrepreneurial services to the companies managed by them.

58. In view of its predominant position in the industry, the case of the largest cement company in the country deserves as separate mention. This company is an amalgam of eleven companies most of which were amalgamated during the thirties, when the industry was in a depressed condition. The managing agency houses, which were managing the amalgamated companies at the time, formed a single managing agency company to manage the newly formed cement company. The managing company firm at present consists essentially of a Managing Director and four other wholtime Directors, who manage the cement company. It has been stated that these five directors look after the entire day-to-day management of the business and affairs of the managed company. We have no reason to doubt this or to suggest that their management has not been efficient. The fact, however, remains that apart from providing the services of these five directors, the managing agency firm maintains no separate organisation for the management of the cement company. During the year ended 31st December 1963, the managing agents collected a managing agency remuneration of Rs. 33.42 lakhs and incurred expenditure of Rs. 5.74 lakhs only. This expenditure comprised mainly of Rs. 4.5 lakhs as remuneration of directors by way of salaries, travelling expenses, medical expenses, contribution to provident funds, perquisites etc. Such senior technical and administrative personnel as are required are employed by the managed company itself. There cannot be any doubt that the managing agency services in this case consist merely of the personal advisory, managerial and entrepreneurial services rendered by the five directors of the managing agency. The managing agency remuneration received, therefore, cannot but be regarded as out of all proportion to the services rendered, as is also evident from the fact that the actual payment made by the managing agency firm to the directors forms only a very small part of the managing agency commission collected.

59. In the case of three other prominent managing agency firms in the industry, the Board of Directors consist (in each case) entirely of members of the same family.

60. In respect of the eight managed companies in our sample the managing agents, their directors, partners, friends etc. hold shares of the paid-up value of Rs. 1.39 crores, which comes to only 4.3 per cent of the total paid-up capital of the managed companies. The equity participation of the managing agents in this case, therefore, is much smaller than in the case of the three industries examined earlier. Loans from managing agents and their associates amounted to only Rs. 34 lakhs in our sample as against loans from banks of Rs. 23.41 crores and from financial institutions of Rs. 184 crores. None of the managed companies reported

receiving public deposits in our sample. In short, the direct financial contribution of the managing agents by way of loans as well as equity can only be considered marginal in the case of the cement industry. As in other cases, of course, the loans received from banks and financial institutions have been mostly guaranteed by the managing agents.

61. All the eight managed companies have stated that they have expansion programmes during the coming years. It has also been stated that the services of the managing agents are essential for carrying out the expansion plans. The premier managing agents in the industry, for example, have stated that it will not be possible for the managed company to carry out expansion programme without their assistance. It is claimed that the shareholders and the Board of Directors of the managed company depend on the managing agents to provide the top layer of the managerial functions needed to bring such an expansion project to a successful conclusion and to co-ordinate all the developmental and other activities associated with the project. In these expansion programmes, the managing agents are expected to play a significant part in arranging the necessary finances and in procuring requisite licences etc. We are unable to agree that by far the largest cement company in the country which, after all, is better known than its managing agents, should have any difficulty in mustering technical and administrative personnel competent enough to put through an expansion programme on its own. The record of most other companies in the industry in terms of efficiency in production is also no less creditable than that of the largest company. Considering the fact that the bulk of the resources for expansion will in any case from internal resources and loans from financial institutions and considering also the fact that fiscal and other concessions have been given to this industry precisely to make adequate expansion possible, we fail to see what special contribution of the managing agents would be lost by the discontinuance of the managing agency system. It is also noteworthy that the I.F.C., the I.C.I.C.I. and the L.I.C. have made substantial financial contribution to this industry in the past. As on 30th June 1964, the contribution of the I.F.C. and the L.I.C. by way of equity participation, loans etc. exceeded Rs. 15 crores and that of the I.C.I.C.I. as on 31st December, 1964 exceeded Rs. 6 crores. It is also noteworthy that the Government of India has established the Cement Corporation of India Ltd. to further the development of the cement industry in the country.

✓ 62. According to a survey conducted by the Reserve Bank of India, the outstanding foreign investment in the industry at the end of 1961 amounted to Rs. 3.9 crores, of which Rs. 2.6 crores was by way of direct investments in foreign controlled rupee companies and Rs. 1.3 crores by way of portfolio investment. There is no reason why there should be any significant dis-investment on the part of foreigners in this industry in the event of the dis-continuance of the managing agency system as we do not apprehend that the profitability of the industry will be affected by such a discontinuance,

63. As for the relative performance of the managed and the non-managed companies in this industry, the following picture emerges from a study of the Reserve Bank relating to the performance of nine managed and five non-managed companies in 1963-64.

	Managed Companies	Non- managed Companies
	%	%
1. Gross profits as % of sales	13.6	11.2
2. Gross profits as % of total assets/liabilities	10.2	10.0
3. Profits after tax as % of net worth	9.0	12.4

(The paid-up capital coverage of the Study was about 88 per cent).

The above data show that while there is not much difference in the profitability of the managed and non-managed companies in terms of gross profits as a percentage of sales or of total assets, profits after tax as a percentage of net worth were in fact higher for the non-managed companies.

64. In brief, by and large, there is little reason to apprehend that the discontinuance of the managing agency system in the cement industry would be detrimental to the growth and efficiency of the industry. We recognise that the cement industry is a highly capital intensive industry and the economies of individual cement plants depend a great deal on their location, in terms of the availability of raw materials, closeness to markets etc. It may become necessary in the general social interest, therefore, to give special encouragement to cement plants, which might be located in particular areas or which might use special techniques and equipment for utilising less suitable raw materials. Similarly, given the degree of concentration that prevails in the industry, it may become necessary from time to time to give encouragement to new small entrants in the industry. We feel, however, that with the establishment of the Cement Corporation of India Ltd., and the decision of the Government to participate directly in the expansion of cement capacity in the country, it should not be necessary to retain the managing agency form of management in this industry in order to give encouragement to small new producers or to the adoption of special locations or processes.

65. One final point. We understand that the present term of the premier managing agent in the industry expires in 1970, whereas the present term of most other managing agents was due to expire in 1965 and has been extended for a short period only. It was represented to us that it would be unfair to terminate managing agencies for different units at different times unless there were special reasons that applied to a particular unit. We feel that while there is some justification in this demand for uniform treatment of different managing agency firms, there is no need to interpret uniformity of treatment too literally. It is also arguable that much may not be lost and something gained in terms of avoiding unnecessary disturbance in the industry at a time when it is poised for a major expansion, if the industry is given a reasonable time to effect a change-over to an alternative form of management. We have already expressed our general opinion that in a matter like this the Government would be well advised to take a liberal attitude.

6. Paper Industry

66. (Unlike the other four industries studied by us, the paper industry cannot yet be considered to be a fully established or well developed industry in the country in respect of all the important varieties of paper.) Despite the sizeable increase in production, the country is still dependent to a considerable extent on imported newsprint and speciality papers as the growth in consumption has also been rapid and as there are significant obstacles in the growth of domestic output of these varieties of papers. The industry is a highly capital intensive one and lack of finance, both rupee and foreign exchange, constitutes a major bottleneck to the rapid growth of the industry. India also cannot be considered to be a major or rich source for the raw materials required by the industry. In the absence of soft woods, the industry in India has had to use a variety of less satisfactory raw materials such as bamboo, grasses, hard-woods, bagasse etc. Domestic production is particularly deficient in regard to speciality papers and newsprint which are being imported in large quantities as also, to a lesser extent, wood pulp as raw material. The products of the industry are varied and the processes employed more sophisticated than in the case of other industries studied by us.

67. In 1900, there were only seven paper companies in the country having a total paid-up capital of Rs. 52 lakhs (On 31st March 1964, there were 188 paper companies having a total paid-up capital of Rs. 55.45 crores. Of these, 26 companies with a paid-up capital of Rs. 27.07 crores (or roughly half of the total) were managed by managing agents. In terms of production, however, the share of the managed companies in the total was significantly larger. Nevertheless, it would appear that the managing agency form of management is not as predominant in this industry as in some of the other industries studied by us.)

68. (In general, the performance of the industry has been satisfactory. During the five years 1960 to 1964, production increased by more than 40 per cent. Relations between the shareholders and the management and between management and labour have been good.) A Reserve-Bank of India study in respect of 21 paper companies shows that dividends as a percentage of the paid-up capital were 8.6 per cent in 1962-63 and 10.2 per cent in 1960-61. In the same two years, profits after tax as percentage of net worth amounted to 7.1 per cent and 9.9 per cent respectively. The record of profitability in the industry therefore, compares well with that of most other industries. According to the same study, the net worth of the 21 paper companies covered was of the order of Rs. 42.46 crores with paid-up capital of Rs. 24.52 crores plus reserves and surplus of Rs. 17.94 crores. Against this, the net fixed assets were of the order of Rs. 47.28 crores. Accumulated reserves, therefore, have been fully utilised in financing the purchase of fixed assets. Of the total paid-up capital of Rs. 24.52 crores in the Reserve Bank of India sample, the size of the bonus issues was of the order of Rs. 4.20 crores or approximately 17 per cent.

69. (The 26 managed companies as on 31st March 1964 were managed by 23 managing agents, 10 of whom were individuals or firms, 9 were private companies and 4 public companies. As many as 12 managing agents out of the 23 had no paid-up capital and only four had paid-up capital of above Rs. 50 lakhs. Of the 23 managing agents, 14 managed

only one company each, whereas at the other end there were four managing agents, who managed four or more companies in all. Even in the case of these four major managing agents, the total number of paper companies managed by them did not exceed two in any case. Of the total of 26 managed companies only 7 could be said to be enjoying economies of group management and these economies also were of a general character rather than those, which might be said to result from the management of a large number of paper companies.

70. Our questionnaire was addressed to all the managing agents and managed companies in the industry as well as to 15 companies not managed by managing agents. We received replies from twelve managing agents, thirteen managed companies and nine non-managed companies. The total paid-up capital of the thirteen managed companies covered in our sample accounts for more than 84 per cent of the paid-up capital of all the managed companies in the industry. Our sample, therefore, is fully representative of the managed sector of the industry. Of the 12 managing agents in our sample, five managed only one company each (all paper), three managed two companies each (of which four in all were in paper), whereas the remaining four managed four or more companies.

71. Reference has already been made earlier to the diverse nature of the business done by many of the bigger managing agents. It is not necessary here to repeat what has already been said earlier about the operation of such big managing agents and the extent to which the benefits accruing from the central organisations maintained by them are reflected in the profits of the managing agents concerned as distinct from those of the managed companies. (The seven paper companies managed by the larger managing houses account for a substantial part of the managed sector of the industry. In this respect, the paper industry is more like the jute textile industry rather than the cotton textile or the sugar industry. However, the fact remains that a large number of managed paper companies are managed by individual managing agents in whose case the question of deriving economies of scale in management does not arise.)

72. The managing agents, their directors, partners, friends etc. hold shares of the paid up value of Rs. 3.22 crores, which comes to about 14.1 per cent of the paid-up capital of the managed companies in our sample. The share holding and the voting power of the managing agents, therefore, is significant. On the other hand, loans from managing agents and their associates amounted to only Rs. 1.26 crores as against loans from banks of Rs. 14.47 crores and loans from financial institutions and from the IBRD, Exim Bank and State Governments of Rs. 12.88 crores. Public deposits at Rs. 83 lakhs were not significant. (On the whole, however, the direct investments of the managing agents in the industry by way of loans were much too small in relation to loans from banks and financial institutions. As in other cases, most of the loans, however, were guaranteed by the managing agents. It is difficult to avoid the impression that in respect of future expansion also the role of the managing agents in providing finance is unlikely to be significant, as the great bulk of the resources required for expansion in a capital intensive industry like this will inevitably have to come from financial institutions and from internal resources

of the companies. Given the heavy foreign exchange requirements of the paper industry, loans in foreign exchange from international agencies and foreign governments will also have to form an important source of finance for expansion.

73. A Reserve Bank study of the working results during 1963-64 of 19 paper companies—11 managed and 8 non-managed shows the following picture in regard to profitability:—

	Managed companies	Non- manage compan
1. Gross profits as % of sales	9.2	14.0
2. Gross profits as % of total assets/liabilities	6.7	9.6
3. Profits after tax as % of net worth	7.1	11.0

(The paid-up capital coverage of the study was about 40%).

It would appear that the non-managed companies in the sample had a better record of profitability than the managed companies.

74. On general grounds, the case for discontinuing the managing agency system in the paper industry would appear as strong as in the case of some of the other industries that we have studied. We do not, however, recommend the discontinuance of the managing agency system in this industry/under section 324. The paper industry cannot yet be considered a well established one and the country has a long way to go yet in meeting its requirements of paper from internal production. The necessity of exploiting available raw materials, even when they may not be wholly satisfactory, implies that there may be cases where special encouragement to a relatively new enterprising group may be necessary, among other things, by way of permission to be associated with the companies intimately as managing agents at least for a certain period of time.

75. In short, it may be desirable, on balance, to retain a greater degree of flexibility in retaining or sanctioning the managing agency form of management in the paper industry. We have naturally not been able to examine the individual circumstances of existing paper companies. But it is quite possible that some of the smaller paper companies may still be in need of the promotional effort of their present managing agents. This may also be true of some of the paper plants that might be set up in future. In view of this, we recommend that the paper industry should be treated on par with the large number of relatively newer industries not studied by us and the question of continuing or discontinuing the managing agency system in this industry should be dealt with on a case by case basis in the light of the general considerations we outline in the next part of our report.

PART III—SOME NOTES TOWARDS A POLICY FOR THE FUTURE

It is only to be expected that an enquiry like ours should bring to our attention a number of general issues related to the future of the managing agency system as such. Assuming that the large number of managing agency agreements that came up for renewal in recent months (and which have been extended for short periods) are dealt with in accordance with our recommendations (or otherwise), the question of the future of the managing agency system will come to fore once again at least in 1970, when another round of renewals will have to be considered. Indeed, new managing agency agreements come up for approval all the time so that, in a sense, a general policy towards the system as a whole becomes necessary for the day-to-day operation of the Company Law as well. At present, there is no explicit statement of such a general policy and we feel that the Government should formulate its policy more explicitly in the interest both of clarity and consistency.

Policy in Outline

2. In our judgment, such a policy statement should make it clear that, other things being equal, the Government proposes to discourage the managing agency system in future on wider social and economic grounds. This is not to say that no new managing agency agreements are to be permitted or that all managing agency agreements ought to be terminated at some precise future date. But the course of policy must be set clearly so that no doubts or uncertainty prevail.

3. On the whole, we feel that periodic committee of enquiry under section 324 to recommend an industry-by-industry approach to this question of the future of the managing agency system may not be so necessary in future. For one thing, as will be seen from the table below, there are only a few major industries (outside the five studied by us) where the managing agency system would be present in any force in future. These include essentially the plantations, electricity generation and supply and textiles other than cotton and jute.

Coverage by Managing Agents in Important Industrial Groups as on 31-3-1964 (Provisional)

Industrial Group	Number of companies			Paid-up capital (Rs. in crores)			% of col. (5) to col. (7)
	Managed	Non- Managed	Total	Managed	Non- Managed	Total	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1. Cement	12	30	42	39.19	7.14	46.33	84.6
2. Rayon or Artificial Silk ..	6	28	34	20.60	3.81	24.41	84.4
3. Electricity Generation and Supply	78	149	227	81.93	12.04	43.97	72.8
4. Jute Textiles	44	52	96	25.78	10.62	36.40	70.8
5. Sugar	66	126	192	32.07	20.48	52.55	61.0

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
6. Rubber Plantations ..	22	54	76	3.06	2.01	5.07	60.4	
7. Cotton Textiles ..	250	470	720	97.09	70.66	167.75	57.9	
8. Woollen Spg. and Wvg. ..	10	22	32	3.88	3.33	7.21	53.8	
9. Paper and Paper Products	26	162	188	27.07	28.38	55.45	48.8	
10. Tea Plantations ..	124	450	574	15.47	19.99	35.46	43.6	
11. Coffee Plantations ..	17	34	51	1.21	2.30	3.51	34.5	
12. Hotel, Restaurants & Eating houses ..	5	116	121	1.84	3.74	5.58	33.0	
13. Silk Spg. and Wvg. ..	9	78	87	1.10	3.16	4.26	25.8	
14. Basic Industrial Chemicals	20	340	360	13.53	49.06	62.59	21.6	
15. Rubber Products ..	9	124	133	3.24	15.87	19.11	17.0	
16. Medical and Pharmaceutical Preparations ..	21	636	657	3.09	23.90	26.99	11.4	
17. Iron & Steel ..	25	554	579	60.49	496.40	556.89	10.9	
18. Engineering ..	70	1,493	1,563	27.46	235.95	263.41	10.4	
19. Transport by Water ..	14	95	109	5.94	56.20	62.14	9.6	
20. Transport by Road ..	14	1,494	1,508	0.83	8.72	9.55	8.7	
21. Tobacco ..	3	51	54	1.42	18.62	20.04	7.1	
22. Coal Mining ..	55	371	426	10.19	142.70	152.98	6.7	
23. Recreation Services ..	13	946	959	0.75	11.47	12.22	6.1	
24. Printing, publishing, book-binding etc. ..	12	1,075	10,87	0.58	11.46	12.04	4.8	
25. Chemical Fertilizers ..	9	56	65	2.55	52.48	55.03	4.6	
26. Wholesale trade ..	32	3,914	3,946	2.53	114.79	117.32	2.2	
27. Others ..	306	11,810	12,116	100.68	586.61	687.29	14.6	
TOTAL ..	1,272	24,730	26,002	533.57	2011.98	2545.55	21.0	

Source—Company Law Board.

Once a general view is taken in regard to the future of the managing agency system in the more important industries, the transition to alternative forms of management in other industries could well be made by exercising powers under section 326 as and when individual managing agency agreements came up for renewal. In general, section 326 leaves greater room for flexibility in the sense that it admits of exceptions. It also avoids disturbance insofar as existing agreements are not terminated before they are due to expire. Admittedly, flexibility can shade off into arbitrariness unless it is exercised in the light of clearly laid down policy guide-lines and criteria. But these are needed in any case if arbitrariness is to be avoided in approving or disapproving of new agreements as distinguished from the termination of old ones.

4. Specifically, we would recommend that well before 1970—say 1967—the Government should review the position in some of the remaining major industries and announce that in industries (a), (b) or (c), the Government will not be prepared to renew managing agency agreements under section 326 except in exceptional circumstances. This would give ample time to all concerned to make a change-over—or to have their exceptional circumstances examined and pronounced upon.

5. It has been claimed that managing agency agreements cannot be refused under section 326 on general policy grounds—i.e. that they can be refused only if the managing agents concerned are not competent enough to manage the companies. We are not in a position to interpret the legal status of section 326. But if section 326 cannot be used for a gradual and orderly thinning out of the managing agency-system, an appropriate amendment of it should be considered.

6. As for the criteria to be applied in a unit-by-unit approach either for new agreements or renewals, we would suggest a careful formulation after full consideration by the appropriate authorities. Our main suggestions in this regard may be summarised as follows—

- (i) The one justification for the managing agency form of management that we see is that it might induce promotional and entrepreneurial activity on the part of new people, who may not take the risk of promotion unless they are assured of a reasonably continuous and intimate share in management. If there are only one or two promoters, they can well seek this association as managing directors. But often, there may be a few persons who together provide the promotional effort—with one or the other essentially providing technical know-how or managerial skill or financial resources. In such a case, all of them can jointly have the kind of association in management they seek through a managing agency.
- (ii) If the rationale for permitting the managing agency system is as in (i) above, there should be no reason for permitting it except for a limited period extending over the initial period of growth of the company. There should be no hereditary or long-standing managing agency agreements. Also, the claim for a special link on the part of a group of persons must be substantiated by specific contribution and qualifications of the partners of the managing agency. Husband-and-wife or father-and-son managing agencies could have little justification.
- (iii) More often than not, the question of approving or renewing managing agency agreements will arise not in the case of persons or groups newly entering the industrial field but in the case of existing major managing agency houses. There is a conflict here between so-called economies of group management and the desire to inhibit concentration of economic power. Where economies of group management are claimed, preference should be given to the existence of a separate and competent organisation managed by technically qualified people as also to the presence in the Boards of the managing agency firm of persons, who are associated for their training and experience rather than for family considerations. Similarly, managing agents exclusively (or at least primarily) engaged in the management of companies (as distinguished from trading etc.) and those specialising in the management of one or two industries should be shown a preference.
- (iv) Irrespective of anything else, the major agency houses should not be allowed to manage companies in well-established industries, where the managing agency system is to be generally discouraged.

In keeping with their larger resources and experience, they should be permitted to manage companies in only those industries which are particularly new or risky. A reasonable minimum of contribution to equity capital should also be a pre-condition for permitting a special management relationship with the company.

- (v) Large companies with net fixed assets or annual sales of, say, more than Rs. 10 crores require undivided attention and can afford to employ persons who can afford to give it. Their management is not likely to gain by being entrusted to persons who manage a great many other miscellaneous companies. On the contrary, a separate personality and tradition for major manufacturing units is a desirable feature. Irrespective of anything else, therefore, the managing agency form of management should be considered unsuitable or at least unnecessary for really large units.

Alternative Forms of Management

7. The future of the managing agency system cannot also be considered except with reference to the alternative forms of management. Under the Company Law of 1956, three alternatives to the managing agency system are possible, viz., Secretaries and Treasurers, Managing Directors and a Board of Directors with or without a Manager. At one time, the institution of Secretaries and Treasurers was thought of as a suitable alternative to the managing agency system. In point of fact, however, it has not proved attractive to all but a handful of new companies formed in recent years. It would be no exaggeration to say that for all practical purposes, Secretaries and Treasurers exist only in those cases, where managing agents already in existence had to shed some of the managed companies in view of the limit of ten on the total number of companies that a managing agent can manage. The companies so shed continued in most cases to be managed by their erstwhile managing agents as Secretaries and Treasurers.

8. It is not unreasonable to assume that, in the absence of deliberate policy to the contrary, the termination of the managing agency in the case of important managing houses will simply lead to their replacement as Secretaries and Treasurers. We cannot see in such a change any particular gain and would like the Government to consider carefully whether managing agents should be allowed automatically to be replaced by Secretaries and Treasurers. Apart from the fact that Secretaries and Treasurers can draw a maximum remuneration of $7\frac{1}{2}$ per cent of net profits (as against 10 per cent for managing agents) and are not permitted to nominate their representatives on the Board of Directors, there is hardly any difference between them and managing agents. Indeed, unlike in the case of managing agents, there is no limit on the total number of companies that a firm or group can manage as Secretaries and Treasurers.

9. As for Managing Directors, under present legislation, a company can have up to two Managing Directors each of whom can claim a maximum of 5 per cent of the net profits of the company as remuneration. No person can be a Managing Director in more than two companies so that this form of management makes for diffusion of managerial responsibility among a

wider circle and reduces the danger of absentee managers collecting a continuing royalty for services rendered in the past (often by ancestors). The formula of sharing in profits affords both compensation for risks taken earlier (as promoters) as well as incentive for continuing attention to the efficiency and growth of the company. Thus, this form of management combines some of the advantages of the managing agency system without its disadvantages. However, it is also pertinent to ask whether in every case that a managing agency is terminated, two Managing Directors should be permitted and each allowed the maximum remuneration of 5 per cent of net profits. In that event, the cost of management to the company would be the same as in the case of a managing agency with privilege attached to a few persons only. We should think that in approving managing directorships and their remunerations, due regard should be paid to qualifications and the kind of remuneration which cannot be considered too extravagant for the services of any one person.

10. It was also represented to us that in view of the suspicions attaching to the managing agency system in the past, the present company legislation provides a number of checks on the powers of the managing agents. The legislative checks on the powers of the managing directors, however, are not so comprehensive. We were told that if the managing directorships were to be a more predominant form of management, the question of limiting their powers, prescribing their qualifications, defining their remuneration etc. must be reconsidered carefully. We feel there is substance in this point of view and would suggest a careful examination of it. In particular, we feel that the right of a managing director or his associate to receive remuneration as selling agents or purchasing agents should be circumscribed in the same way as is the case with managing agents. In the ultimate analysis, the managing agency system—at its worst—is a device for siphoning off a part of profits from a company and sharing it within a small group. If the same result were to be permitted through selling or purchasing agencies given to a privileged group, we would be exchanging simply King Log for King Stork. This whole question of policy towards selling and purchasing agencies, therefore, also needs to be considered carefully.

11. Sooner or later, the gradual elimination of the managing agency system (without its replacement by Secretaries and Treasurers) will transform the nature and *modus operandi* of the leading business houses in the country, which exercise their control at present essentially through managing agencies controlled by them. It is in the nature of economic power to seek to perpetuate and extend itself in one way or another. To some extent, this will be done by interlocking directorships as well as through socially interesting phenomena such as dynastic marriages to bring within one family umbrella as many "natural" managing directors as possible. Substitutes for the present form of control, however, will also be sought in many other ways unknown or unfamiliar today such as amalgamations, holding companies and the like so that the lineaments of new but equally pervasive and inbred managerial alignments will have to be defined and dealt with continuously. We mention this only to underline that in matters such as concentration of economic power or perpetuation of economic privilege, there is no such thing as the end of the road in a growing and mixed economy.

12. Finally, policy in this regard must also have a positive aspect. Training of larger and larger managerial cadres from all walks of life, encouragement to management and other consultancy firms through fiscal and other devices, a purposeful deployment of the financial resources of governmental and semi-governmental institutions and the weaning away of banks and other financial institutions from the practice of obtaining personal guarantees are all aspects of a positive approach. The debates during the enactment of the Companies Act of 1956 showed a great deal of concern lest the termination of the managing agency system should create a vacuum. The danger now of a vacuum being created is less. But it is by no means non-existent. Continued vigilance, therefore, has to be matched by continuous attention to the genuine needs of industry for finance, know-how, counsel and intelligent risk-taking.

(I. G. PATEL), *Chairman*

(K. L. GHEI), *Member*

(B. N. ADARKAR), *Member*

(K. B. RAO), *Member*

(A. V. VENKATESWARAN), *Member*

(B. P. ROY), *Secretary*

MINISTRY OF FINANCE

DEPARTMENT OF COMPANY AFFAIRS & INSURANCE

New Delhi, dated 4th January, 1965

NOTIFICATION

G.S.R. 12(57)-C.III/63—WHEREAS the Central Government has had under consideration the question of deciding the future of the managing agency system in India, particularly in view of the fact that the terms of office of a large number of managing agents are due to expire by August 1965 and;

WHEREAS it has been suggested to the Government of India that the continuance of the managing agency system in the established industries should be specifically considered; and

NOW, therefore, in exercise of the powers conferred by Rule 11 of the Companies (Central Government's) General Rules and Forms, 1956 and of all other powers enabling it in this behalf, the Central Government hereby appoints a Committee of Inquiry consisting of the following:—

1. Dr. I. G. Patel, Chief Economic Adviser to the Government of India, *Chairman*.
2. Shri K. L. Ghei, Additional Secretary, Ministry of Finance, *Member*.
3. Shri B. N. Adarkar, Additional Secretary, Ministry of Finance, *Member*.
4. Shri K. B. Rao, Officer on Special Duty, Ministry of Industry and Supply, *Member*.
5. Shri S. Vohra, Joint Secretary to the Govt. of India, Ministry of Commerce, *Member*.

Shri Faqir Chand, Deputy Secretary to the Government of India, Department of Company Affairs and Insurance, is hereby appointed Secretary to the Committee.

The Committee shall enquire into and report on and in respect of the desirability of applying the provisions of sub-section (2) of section 324 of the Companies Act, 1956 (1 of 1956) to companies engaged in established industries or any other industry or business as may be deemed fit by the Committee in this behalf.

Sd. R. C. DUTT

Secretary to the Government of India

PRESS NOTE DATED 23RD JAN. 65

MANAGING AGENCY ENQUIRY COMMITTEE

A Committee under the Chairmanship of Dr. I. G. Patel, Chief Economic Adviser to the Government of India, has been appointed by the Ministry of Finance by Gazette Notification of 4th January 1965 to enquire into and report on the desirability of action under the provisions of section 324 of the Companies Act, 1956. The Committee has started its work with an enquiry into the following five industries:—

- (1) Cement;
- (2) Cotton Textiles;
- (3) Paper;
- (4) Sugar; and
- (5) Jute Textiles.

2. For purposes of the enquiry, the Committee would welcome the views of individuals, trade associations and others in regard to matters the Committee is required to enquire into and report upon. The Committee hereby invites all those who wish to send their views to the Committee to address them to the Secretary of the Committee whose address is given below—

Shri Faqir Chand,
 Secretary, Managing Agency Enquiry Committee,
 Company Law Board, Reserve Bank Bldg.,
 Parliament Street, New Delhi-1.

The envelopes may carry the words "For the Managing Agency Enquiry Committee" above the address.

3. The views requested above may kindly be sent as early as possible and not later than 15th February, 1965.

4. Section 324 of the Companies Act, 1956 and Rule 11 of the Companies (Central Government's) General Rules and Forms, 1956 are reproduced below—

Section 324 of the Companies Act, 1956

324. (1) Subject to such rules as may be prescribed in this behalf, the Central Government may, by notification in the Official Gazette, declare that, as from such date as may be specified in the notification, the provisions of sub-section (2) shall apply to all companies, whether incorporated before or after the commencement of this Act, which are engaged on that date or may thereafter be engaged, wholly or in part, in such class or description of industry or business as may be specified in the notification.

(2) Thereupon—

- (a) where any such company has a managing agent on the specified date, the term of office of that managing agent shall, if it does not expire earlier, expire at the end of three years from the specified date, or on the 15th day of August 1960, whichever is later; and the company shall not reappoint or appoint the same or any other managing agent; and
- (b) where any such company has no managing agent on the specified date, or where it is incorporated on or after that date, it shall not appoint a managing agent.

(3) Copies of all rules prescribed under sub-section (1) shall, as soon as may be after they have been prescribed, be laid before both Houses of Parliament.

(4) A copy of every notification proposed to be issued under sub-section (1) shall be laid in draft before both Houses of Parliament for a period of not less than thirty days while they are in session; and if, within that period, either House disapproves of the issue of the notification or approves of such issue only with modifications, the notification shall not be issued or, as the case may require, shall be issued only with such modifications as may be agreed on by both the Houses.

Rule 11 of the Companies (Central Government's) General Rules and Forms, 1956

Section 324—(1) (a) For the purpose of making an enquiry into the desirability of applying the provisions of sub-section (2) of section 324 to companies engaged in any class or description of industry or business, the Central Government may, by notification in the Official Gazette, appoint a Committee of Inquiry consisting of one or more members, to report on the matter in writing to the Central Government, within such time as may be specified in the notification.

(b) Where the Committee consists of more than one member, one of them may be appointed as the Chairman thereof.

(2) (a) The Committee shall have power to require any person, subject to any privilege which may be claimed by that person under any law for the time being in force, to furnish information on such points or matters as, in the opinion of the Committee, may be useful for, or relevant to, the subject matter of the inquiry.

(b) Without prejudice to the generality of the power conferred under sub-rule (a), the Committee may for the purposes of its inquiry, examine any person connected or associated with the class or description of industry or business in respect of which the inquiry being made and shall examine such representatives of the management, investors and other interests concerned with the working of the units engaged in the industry or business concerned as the Committee may in its discretion select for the purpose.

(3) Without prejudice to the generality of the power of the Committee to inquire into any matter which it considers relevant for the furtherance

of the inquiry entrusted to it, it shall be the duty of the Committee to make specific inquiries in regard to the following matters:—

- (a) the importance of the class or description of industry or business in respect of which the inquiry is made, to the national economy;
 - (b) the number of companies engaged wholly or in part in such industry or business and the performance of such companies as judged by their production figures, relations between the shareholders and the management, dividends declared, utilisation of reserves, bonus paid to shareholders in the form of new shares or to the workers, relations between the workers and the management and such other matters as the Committee may deem relevant;
 - (c) the capital structure and the forms of management of such companies, i.e., whether they are managed by boards of directors, managing directors or managing agents or otherwise;
 - (d) the capital structure of the managing agencies, if they are companies, the extent of the control of the managing agents in the companies they manage and their interest, if any, in companies engaged in other classes or descriptions of industry or business;
 - (e) the remuneration earned by the managing agents, whether by way of a commission on profits or selling and buying agencies, either by holding these agencies themselves or through their associates, or otherwise;
 - (f) if they are managed by managing agents, the extent to which managing agents have been responsible for the promotion and development of the companies, with particular reference to their services in rendering financial assistance to them;
 - (g) whether having regard to the nature of the industry or business concerned, its present state of development and its future prospects and needs in the context of the working of the private sector, the promotional, managerial, financial and other developmental activities required for the efficient conduct and management of the companies engaged in that industry or business could not be carried out adequately with greater advantage to the shareholders and the general public by any other form of management.
- (4) It shall be within the discretion of the Central Government whether to publish or not the report submitted by the Committee.
- (5) The provisions of the Commissions of Inquiry Act, 1952 (60 of 1952), shall apply to the Committee in so far as the Central Government may by notification in the Official Gazette, direct in exercise of the power conferred on it by Section 11 of the Act.

APPENDIX I—ITEM 3

SECTION 326 OF THE COMPANIES ACT, 1956

326. *Central Government to approve of appointment, etc., of managing agents; and circumstances in which approval may be accorded*—(1) In respect of any company to which neither the prohibition specified in section 324 nor that specified in section 325 applies, a managing agent shall not be appointed or re-appointed—

- (a) except by the company in general meeting; and
- (b) unless the approval of the Central Government has been obtained for such appointment or re-appointment.

(2) The Central Government shall not accord its approval under subsection (1) in any case, unless it is satisfied—

- (a) that it is not against the public interest to allow the company to have a managing agent;
- (b) that the managing agent proposed is, in its opinion, a fit and proper person to be appointed or re-appointed as such, and that the conditions of the managing agency agreement proposed are fair and reasonable; and
- (c) that the managing agent proposed has fulfilled any conditions which the Central Government requires him to fulfil.

QUESTIONNAIRE FOR MANAGING AGENTS

1. Name and Address.
2. Whether proprietary concern, partnership firm, or limited company and when established.
3. Capital, with particulars of share of each partner in the case of partnership firm and the number of shareholders and the paid up value of the shares held by each Director in the case of a Limited Company. Please give separately details of the subscribed and paid-up capital of the company.
4. Please give a brief indication of the special knowledge, qualifications and experience of the proprietor/each partner/each Director in the particular fields of industry or trade which the Agency is concerned.
5. (a) What companies do you manage and since when—
 - (i) as Managing Agents?
 - (ii) as Secretaries and Treasurers?
- (b) Give separately for each the nature of the business of the companies managed by you.
6. (a) What business other than the management of companies are you engaged in?
- (b) Please summarise the working results of your firm/company for the last three years.
7. (a) How much of the capital (equity and preference separately) of each of the managed companies is held by (1) Managing Agents? (2) the Partners/Directors individually?
- (b) How much voting power in each of the managed companies do you control?
8. When do the Managing Agency agreements, under which you now operate, expire in the case of each managed company? Would you like to have the agreements renewed? If so, give reasons.
9. Please explain fully the nature of the services rendered by you to each managed company—
 - (a) Promotional
 - (i) What part did you play in bringing the Managed Companies into existence and/or in expanding or diversifying their activities?
 - (ii) What was your contribution to raising the necessary equity capital and other finance or securing other production facilities?
 - (iii) Did you perform an underwriting function?
 - (iv) In what way, if at all, do you think, does the Managing Agency system make up for the absence of issue houses in this country?
 - (v) Please explain the manner in which you were paid for your promotional services and also the quantum of remuneration received by you in this respect.

(b) Financial

- (i) What was the total indebtedness of each of the managed companies to the Managing Agency firm/Company by way of debentures or other long-term, medium term or short-term loans as at the end of the financial year as on 31st December, 1964.
- (ii) In so far as the financial resources (other than equity/preference capital) of the managed company are obtained through you, please indicate the sources from which these resources are obtained, with particulars of their amounts in the last financial year, and in particular, whether by way of deposits from various sources, loans from the Directors or other Members of the Managing Agency, loans from public institutions, borrowings from banks and loans and investments by other companies managed, owned or controlled by you. In respect of which all these resources, if any, is the managed company likely to experience difficulties in obtaining its requirements if the managing agency system is terminated?
- (iii) Please give details of other funds not covered in (i) and (ii) above, raised by each managed company separately?

(c) Managerial

- (i) What are the managerial services you perform in lieu of the Managing Agency Commission?
- (ii) Are there any other managerial services that you perform for which you charge the company?
- (iii) Are there any managerial services rendered by you to the Managed company without charge or remuneration?
- (iv) Does the present form of management result in any special advantages to the managed companies by way of economies of scale and the like in respect of sales, purchases, research, financial arrangements, etc.? Please give details.
- (v) Do you maintain any organisation of your own to assist you in rendering managerial services? If so, give details of the organisation. If a similar organisation is maintained in respect of other services, please give details for them also.
- (vi) How are the costs of these organisations met? If from companies managed by you, give contributions of each during the past year and the manner in which this contribution was determined.
- (vii) What are the functions performed by you and powers exercised by you as Managing Agents which are additional to those normally performed or exercised by managing directors/secretaries and treasurers/managers in companies not managed by managing agents?
- (viii) Are there any powers exercised by you (by delegation from the Managed company) which are normally exercised by the Board of Directors only in a company not managed by managing agents?
- (ix) Please mention some of the important decisions taken by you during the past twelve months without prior consultation of the Board of Directors. Give instances also of decisions taken by you which have been reversed or not ratified by the Board of Directors.

10. Do you employ any associates as defined in the Companies Act, 1956, in any of the companies managed by you? If so, give details including sales, qualifications, job, since when employed, companywise.

11. (a) Remuneration earned, drawn and foregone by you during the last three years for each managed company.

(b) A break-up of the total earnings of your firm/company into the following as—

- (i) Managing Agency Commission;
- (ii) Commission on sales of managed company's products from the buyers;
- (iii) Commission on purchases on behalf of the managed company from the sellers; and
- (iv) Any other source with particulars.

12. Please indicate the future plans of expansion for every company managed by you and the role you expect to play in the execution of these plans. Please state what you consider to be the contribution that you can make (in regard to these plans) as distinct from that which can be made by any other form of management. Give reasons.

13. What would be the consequences to you and to the companies managed by you if the Managing Agency system in the industry concerned is discontinued?

14. Please state anything else that you would like to bring to the attention of the Committee.

QUESTIONNAIRE FOR COMPANIES MANAGED BY MANAGING AGENTS

1. Name and address of the company.

2. Its business, indicating separately the business of manufacturing, processing, trading, etc.

3. Name and address of the Managing Agents. Since when have the managing Agents managed the company?

4. Please state how the company was established and when indicating—

- (a) part played by promoters; and
- (b) the remuneration paid in cash or otherwise (with particulars) to promoters for the services rendered by them.

5. Please give brief history of the development of the company in all aspects with statistics in regard to—

- (i) Capital;
- (ii) Production;
- (iii) Lines of business;
- (iv) Contribution to the development by Managing Agents; and
- (v) Any other relevant point.

6. Please give a note on each of the following supported by statistics where relevant/available for the last three years—

- (i) Production figures;
- (ii) Relations between shareholders and the management;
- (iii) Dividends declared;
- (iv) Profits (after tax and depreciation) as a percentage of net worth;
- (v) Utilization of reserves;
- (vi) Bonus paid to shareholders in the form of bonus shares;
- (vii) Bonus paid to workers;
- (viii) Relations between the workers and management.

7. (a) Please indicate in as reasonable details as possible the services rendered by the Managing Agents during the years 1961-62, 1962-63 and 1963-64 under the following heads—

- (i) Managerial services;
- (ii) Financial services or assistance;
- (iii) Promotional services;
- (iv) Planning and Research; and
- (v) any other service.

- (b) What are the particular advantages that the company enjoys as a result of the above services being rendered by managing agents rather than by any other form of management;
- (c) Please describe the manner in which the above services are rendered by managing agents;
- (d) Do the managing agents maintain an organisation of their own for rendering these services? If so, give details of the organisation.

8. (a) How much of the capital of the company is held by managing agents, their partners, members, directors, etc.? Give details for each both for equity and preference capital.

- (b) How much voting power do the managing agents control?
- (c) Give details of the loans, if any, received from managing agents during the past three years and indicate the total indebtedness of the company to the managing agents under different heads at the end of the last financial year.
- (d) Please give details of your interest/loan with the managing agents and elsewhere and the purpose of giving these loans and source where the funds were obtained from.

9. (a) Please indicate the remuneration earned, actually drawn and foregone by the managing agents during the last three years for services rendered to the company, giving details of the services rendered and the nature amount of the remuneration.

- (b) Please state also all other payments made to the managing agents/ Associates by the company during the same period giving details of the services in respect of which these payments were made.

10. (a) Please describe briefly the arrangements for the first sale of the company's products with full particulars of important first purchasers and their share in your total sales;
- (b) Similarly, describe the arrangements for the purchase of machinery, important materials, etc., by the company.

11. Give details of foreign collaboration, if any, along with services rendered by foreign collaborators and payments made for these services.

12. Please indicate—

- (a) Future plans for expansion and diversification of the company and how they are intended to be executed.
- (b) Role that you would like to assign to managing agents in respect of these plans.
- (c) Do you think that managing agents can perform this task better than any other available alternative?

13. When does your agreement with the managing agents expire? Do you think it should be renewed? Give reasons for renewing/not renewing the agreement. If you do not propose to renew it, what alternative form of management would you choose?

14. What would be the consequences to your company if the managing agency system in your industry is discontinued? Bring out, in particular, the financial consequences that you anticipate and the alternative form of management you would adopt.

15. Please mention anything else that you would like to bring to the attention of the Committee.

QUESTIONNAIRE FOR COMPANIES NOT MANAGED BY MANAGING AGENTS

1. Name and address of the company.
2. Its business, indicating separately the business of manufacturing, processing, trading, etc.
3. Please indicate briefly the present form of management of the company.
4. Please state how the company was established and when giving—
 - (a) part played by promoters; and
 - (b) the remuneration paid in cash or otherwise to the promoters for services rendered by them.
5. Please give a brief history of the development of the company in all aspects with statistics in regard to—
 - (a) Capital;
 - (b) Production;
 - (c) Lines of business;
 - (d) Contribution to the development by managing agents, if any at any stage; and
 - (e) any other relevant point.

6. Please give a note on each of the following supported statistics where relevant/available for the past three years—

- (i) Production figures;
- (ii) Relation between shareholders and management;
- (iii) Dividends declared;
- (iv) Profits (after tax and depreciation provision) as a percentage of net worth;
- (v) Utilisation of reserves;
- (vi) Bonus paid to shareholders in the form of bonus share;
- (vii) Bonus paid to workers; and
- (viii) Relation between the workers and management.

7. Was your company managed at any time by managing agents? Give the name of the managing agency and indicate why it was terminated. Did you experience any particular difficulties, financial or otherwise, when you changed over to your present form of management?

8. Do you accept deposits from the public? State the amounts outstanding as on 31st December 1964. Describe briefly the manner in which your company obtains finance for different purposes. Do you experience any particular difficulties in this regard that arise from your present form of management?

9. In your present pattern of management, do you find any particular difficulties in matters other than finance which could be reduced if you were managed by a managing agency?

10. Please indicate, if any, your future plans for the expansion or diversification of the company and how they are intended to be executed. Do you anticipate any difficulties in regard to these plans which arise from your present form of management? Would any alternative form of management reduce these difficulties? Please give reasons.

11. Would you favour the discontinuance of the Managing Agency in your industry? Give reasons. Would you anticipate any adverse or favourable repercussions on your company and on the industry in general and in what respects if the managing agency system is discontinued in your industry?

LIST OF ASSOCIATIONS, CHAMBERS OF COMMERCE, INDIVIDUALS, ETC., WHO SENT THEIR VIEWS TO THE COMMITTEE

(a) Associations and Institutions—

- *1. Cement Manufacturers' Association, Bombay.
- *2. Indian Cotton Mills Federation, Bombay.
3. Millowners' Association, Bombay.
4. Ahmedabad Millowners' Association, Ahmedabad.
5. Southern India Millowners' Association, Coimbatore.
6. Tamil Nad Millowners' Association, Madurai.
- *7. Joint Committee of the Paper Industry, Calcutta.
- *8. Indian Sugar Mills Association, Calcutta.
9. Deccan Sugar Factories Association, Bombay.
- *10. Indian Jute Mills Association, Calcutta.
11. Indian National Trade Union Congress, New Delhi.
- *12. Bombay Shareholders' Association, Bombay.
13. All India Investors Association, Calcutta.
14. India United Shareholders' Association, Calcutta.
15. Madras Shareholders' Association, Madras.
16. Northern India Shareholders' Association, New Delhi.
17. Madras Stock Exchange Ltd., Madras.
18. Madhya Pradesh Stock Exchange, Indore.
19. Stock Exchange, Ahmedabad.
20. Indian Institute of Bankers, Bombay.
21. Institute of Chartered Accountants of India, New Delhi.
22. Chartered Institute of Secretaries of India Association, Bombay.
23. Association of Company Secretaries & Executives, Calcutta.
24. Economic and Scientific Research Association, Calcutta.
25. Bombay Industries Association, Bombay.

(b) Chambers of Commerce—

- *1. Federation of Indian Chambers of Commerce & Industry, New Delhi.
- *2. Bengal Chamber of Commerce & Industry, Calcutta (Associated Chamber of Commerce, Calcutta).
3. Indian Merchants Chamber, Bombay.
4. Bombay Chamber of Commerce & Industry, Bombay.

*These bodies were interviewed by the Committee.

5. Bharat Chamber of Commerce, Calcutta.
 6. Indian Chamber of Commerce, Tuticorin.
 7. Madras Chamber of Commerce, Madras.
 8. Indian Chamber of Commerce, Coimbatore.
 9. Madurai-Ramnad Chamber of Commerce, Madurai.
 10. Tuticorin Chamber of Commerce, Tuticorin.
 11. Southern India Chamber of Commerce, Madras.
 12. Southern Travancore Chamber of Commerce, Nagercoil, Madras State.
 13. Federation of Gujarat Mills & Industries, Baroda.
- (c) Financial Institutions—
1. Industrial Credit & Investment Corporation of India Ltd., Bombay.
 - *2. Central Bank of India Ltd., Bombay.
- (d) Individuals, and Companies—
1. Shri O. C. Desai, New Delhi.
 2. Shri K. S. Narayanmurthy, Secretary, Tractors and Bulldozers Ltd., Bombay.
 3. Shri N. H. Mupara, Bombay.
 4. Murari Lal Batra & Co., New Delhi.
 5. Shri S. R. Sharma, Jamshedpur.
 6. Raj K. Tandon & Co., Chartered Accountants, Delhi.

*These bodies were interviewed by the Committee.

Price: Inland Re. 1.20 Paise—Foreign 2sh. 10d. or 44 cents.

PRINTED IN INDIA BY THE MANAGER GOVERNMENT OF INDIA PRESS
SIMLA FOR THE MANAGER OF PUBLICATIONS CIVIL LINES DELHI
1966