REPORT OF THE COMMITTEE TO REVIEW POLICY FOR PUBLIC ENTERPRISES

Chairman :

Arjun Sengupta

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Sengupta Report on Public Sector

In September 1984, the Government of India set up a Committee to analyse the performance of the public sector enterprises, identify the problems they face and suggest measures for their improved functioning. In just over three months, the Committee which was presided over by Dr Arjun Sengupta, then Special Secretary to the Prime Minister, submitted its report on December 31, 1984. For a year and half now, the report of the Sengupta Committee has been gathering dust in the Central Secretariat, while people in authority have not hesitated to run down the public sector. Although a committee of secretaries of the Central Government was, according to reports, supposed to be processing the report, the public has been kept in the dark. Prime Minister Rajiv Gandhi mentioned about the report approvingly more than once in course of interviews last year and it was expected that it would be placed before Parliament or released direct for public debate on the public sector along the lines of the debate that preceded the adoption on the New Policy on Education. Since no such thing has happened, **Mainstream** *is reproducing the text of the Sengupta Report, to initiate discussion on this important subject. The Centre of Indian Trade Unions has already come out with critical reviews of the Sengupta Report, which will be published in this journal in due course.* — Editor

REPORT OF THE COMMITTEE TO REVIEW POLICY FOR PUBLIC ENTERPRISES

31 December, 1984

Dear Prime Minister,

The Government of India had appointed a Committee to Review Policy for Public Enterprises. The Committee was asked to submit its report by the end of December, 1984.

We have great pleasure in submitting our Report.

Yours sincerely,

Arjun Sengupta Chairman
R. Ganapati Member
Bimal Jalan Member
Y.K. Alagh Member
S.V.S. Raghavan Member
D.V. Kapur member
S.D. Srivastva Member
Nitin Desai Member
B, Swaminathan Member-Secretary

AT the instance of the late Prime Minister, Smt. Indira Gandhi, Government of India decided to set up a Committee to review our National Policy for Public Enterprises. The Committee was given the task to analyse the performance of public enterprises, to identify the constraints and suggest measures to improve their functioning. The details of the composition of the Committee and the terms of reference are set out in the attached Office Memorandum dated 21st September, 1984.

In the preparation of the Report, the Committee had 22 meetings and also consulted a number of persons, both in their individual and official capacities. It held discussions with Secretaries of key economic Ministries, Chief Executives of several public enterprises, some eminent trade union leaders and management professionals. The list of these persons is given in the Annexure. Discussions with them were candid, stimulating and very useful. The Committee also circulated a Questionnaire to all public enterprises as well as Ministries and Departments of the Government of India. Replies received from them have been considered by the Committee very carefully in formulating its recommendations. The Comptroller and Auditor General of India was gracious enough to meet the Committee along with his officers.

The Committee was asked to submit its Report by the end of December, 1984. The Committee is happy to submit its Report by the time given to it.

ARJUN SENGUPTA

ACKNOWLEDGEMENT

The Committee would like to thank the Secretariat and especially Shri R. Swaminathan, Member-Secretary, without whose painstaking work the Report could not have been completed in time. The Committee also records its appreciation for Shri G.K. Arora, Additional Secretary to Prime Minister, Shri K.P. Geethakrishnan, Joint Secretary, Department of Expenditure, Ministry of Finance and Smt. Rita Ravi Nangia, Deputy Economic Adviser, Prime Minister's Office, who were associated with the work of the Committee from the beginning as regular invitees.

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1. INTRODUCTION

1.1 THE foundations of the public sector in India go back to the early years of planning. The Industrial Policy Resolution of 30th April, 1956, which is still the basis of present policy, proposed that all basic and strategic industries and public utilities should be in the public sector given the objective of a socialistic pattern of society and the need for planned and rapid development. The intimate connection between planning and growth of public enterprises was spelt out more clearly in the Second Five Year Plan which stated that "The use of modern technology requires large scale production and a unified control and allocation of resources in certain major lines of activity. These include exploitation of minerals, and basic and capital goods industries which are major determinants of the rate of growth of the economy. The responsibility for new developments in these fields must be undertaken in the main by the State, and the existing units have also to fall in line with the emerging pattern. Public ownership, partial or complete, and public control or participation in management are specially required in those fields in which technological considerations tend towards a concentration of economic power and of wealth."

1.2 In terms of the objectives specified in the Industrial Policy Resolution, public enterprises have certainly established their dominance in basic and strategic industries like coal, petroleum, steel, non-ferrous metals, heavy engineering, etc., which are listed in Schedule 'A' of the Resolution and a substantial presence in industries like machine tools, fertilisers, basic and intermediate chemicals, drugs, etc., which are listed in Schedule 'B'. Public enterprises have achieved a great deal in terms of their contribution to quantitative targets of production, to the establishment of a modern industrial structure, to balanced regional development and to the formation of technological skills. They have become principal instruments of planning in India, occupying commanding heights of the economy, controlling and directing in a large measure the whole course of its development.

1.3 Over the period of last 30 years or more, the growth of the public enterprises has been phenomenal in terms of investment and production as well as the scope of activities. At the end of 1983-84 the capital employed in the central public enterprises alone stood at Rs. 32,202 crores having a total turn over of Rs. 46,777 crores. From only 5 enterprises on 1st April, 1951, they have grown to 209 by April 1983, employing more than 2 million people. It has spread over all parts of India. Its coverage has extended beyond the basic and heavy industries into light manufacturing, variety of consumer goods, electronics, high-tech products, construction, consultancy services and even tourism and hotel industries.

But in spite of this phenomenal growth, the overall performance has remained unsatisfactory-especially in terms of their contribution to the generation of resources and financial profitability. For example, the Sixth Plan assumed on overall net rate of return of 8 per cent per annum increasing to

10 per cent in 1984-85 for all public enterprises in constant prices. This has not been achieved and the profitability of the enterprises has declined over time. The provisional results for the year 1983-84 indicate that in aggregate terms public enterprises have made a net profit of Rs. 32.2 crores as against a profit of Rs. 617.9 crores in 1982-83 and Rs. 445.9 crores in 1981-82. Consequently, the net contribution of public enterprises to the requirement of funds for their investment proposals is small, resulting in pressure on budgetary resources. The ability of the budget to finance further public investment has been seriously eroded because of low returns on past investment and rising burden of Defence and other non-Plan expenditure.

1.4 The rationale of the operation of public enterprises and the expectation that the management should be run on commercial and business lines, that they should earn profits to contribute to the revenues of the State, that they should be judged for their total results and subject to these performance criteria they should have full freedom of operation, were clearly set out in the Industrial Policy Resolution of 1956 as quoted below:

> "With the growing participation of the State in industry and trade, the manner in which these activities should be conducted and managed assume considerable importance. Speedy decisions and a willingness to assume responsibility are essential if these enterprises are to succeed. For this, wherever possible, there should be decentralisation of authority and their management should be along business lines. It is to be expected that public enterprises will augment the revenues of the State and provide resources for further development in fresh fields. But such enterprises may sometimes incur losses. Public enterprises have to be judged by their total results and in their working they should have the largest possible measure of freedom....."

In accordance with this rationale most of the activities of the public sector were organised in the form of corporations or companies set up either under the Statute or under the Companies Act while some activities continued to be organised within the framework of departmental undertakings or statutory boards; their numbers are few and operational methods are dictated by specific requirements of the Government. For this Report, the recommendations will pertain only to public enterprises set up as corporations or companies, which as mentioned above were supposed to function "along business lines".

1.5 The expectation that public enterprises as commercial ventures should "augment the revenues of the State" and provide a return which can be used for further investment and growth has not been fulfilled. Even for units which were making losses because of the nature of products or because of their serving some specified social objectives, the efficiency of operation has often deteriorated. In actual practice, the freedom of operation of the management has been quite often curtailed or interfered with by formal or informal Government intervention. While the public enterprises were to be judged by their "total results" the monitoring and evaluation system of the Government has not been adequate to the task. The strict enforcement of performance standards on public enterprises would entail having a closer look at the constraints of the operation. While some of these arise from the general nature of our economic structure and some from incorrect investment decisions of the past, others stem from poor managerial practices within the enterprises and formal and informal interference by Government.

1.6 The primary objective of this Report is to consider these constraints and to suggest measure to change the whole environment of operation of public enterprises so that their performance can effectively improve. A new look at Government — Public Enterprise relations is essential if performance standards are to be enforced, as it would not be realistic to expect results without giving necessary autonomy to the enterprises with regard to the decisions which affect such results. Moreover, the size and pattern of public sector is now such that the modalities of instructions which may have been appropriate with a few pioneering enterprises, may not be as useful when enterprises have grown both in numbers and in size as well as in their scope of operation. A different approach to the role of public enterprises in plan development is now required and that is the task the Committee addresses itself to in the rest of the Report.

II

PUBLIC ENTERPRISES AND NATIONAL PLANNING

2.1 PUBLIC enterprises in India have to function within the framework of planning and, in many areas they are in effect the principal instruments for the realisation of plan objectives. Hence, the relationship between the Ministries and Departments of Government of India and the enterprises cannot be reduced to the usual annual interaction between shareholders and corporate management. A more active interaction between the Government and the enterprise is unavoidable in critical areas like strategic planning, setting up of investment priorities and formultion of large projects. Moreover, public enterprises are not islands unto themselves and decisions taken by one enterprise affect the fortunes of others. Therefore, some arrangement for coordination becomes necessary of the production and investment decisions as well as wages, employment, pricing and technology policies of the different enterprises. However, it would not be desirable to subject all decisions to scrutiny and approval of the Government. Direct intervention, to be effective, has to be limited and the crucial task would be to define clearly the areas where compulsions of planning require close coordination of economy-wide and enterprise-level plans.

2.2 Public enterprises in India operate in a large number of sectors; while some are in the core sector, others are not. In our opinion, a careful dovetailing of all the plans of public enterprises and the National Plan is required only in a few core sectors which are critical for the planned development of the country because they are closely linked with other sectors. In fact, in these sectors, a measure of central intervention is required not

merely in the case of public enterprises' but also in similar private enterprises. However, in practice in most of these core sectors, public enterprises account for the bulk of available capacity and have a near monopolistic position. These sectors generally operate in a non-competitive environment, with a few producers, and in many cases, with price and/or distribution controls. Most of the large projects in the industrial fields also fall within this core sector.

2.3 We would suggest that for the purpose of defining Government Public Enterprise relations, the following sectors be considered as core sectors:

Coal and lignite
Crude oil, petroleum and natural gas
Power
Primary steel production
Primary production of aluminium, copper, lead, zinc and nickel
Fertilizers
Primary production of petrochemical intermediates.

It may be noted that in national planning, apart from these, the concept of the core will also include other sectors like agriculture, irrigation, railways, etc. But in these, investments are generally not undertaken by central public enterprises. These are, therefore, not taken into account in our report.

2.4 Public enterprises operating in the core sector will naturally have to interact intensively with the Ministries or Departments of the Government of India with regard to matters like investment planning, price fixation and financial management. Their plans will have to be integrated into the National Plan as is the case at present. However this would not preclude modifications in the present procedures to allow for a greater measure of autonomy. As for public enterprises in the non-core sector we would recommend that their plans be integrated into the National Plan only in an indicative sense and such units would continue to be governed by the indicative and regulatory framework of planning as applicable for all similar private sector units. Even in the non-core sector, it will be necessary to distinguish between units which are financially viable and others which incur losses, hence imposing a draft on budgetary resources.

2.5 Thus, from the point of view of planning and budgetary management, public enterprises may be grouped as follows:

(a) Enterprises operating in the core sector as defined in paragraph 2.3 above;

(b) Financially viable enterprises in the non-core sector, and

(c) Enterprises in the non-core sector incurring losses.

This broad grouping has to be taken into account in defining the policy framework for regulating interaction between the Government and the public enterprises.

2.6 As we see it, this interaction, where the Government's policies are determined by the priorities and compulsions of planned development, and public enterprises are to serve as instruments of implementation of these policies, the central issue is to find the right balance between autonomy and accountability of the enterprises. Autonomy, in this context, would mean the ability of an enterprise management to take decisions freely based on economic consideration, on matters for which they are to be held responsible. Accountability itself has to be defined in terms of well-specified performance criteria and the degree of success in the fulfilment of specific tasks assigned to public enterprises. In our view this would require changes in:

— The organisational structure of public enterprises and their relations with the Government;
— the procedures and regulations which determine the degree of autonomy of public enterprises;
— the system of performance evaluation and accountability;
— the code of conduct that governs the exercise of authority in the Government and in public enterprises.

2.7 In what follows we deal specifically with these areas and suggest certain changes which in our view will increase the degree of autonomy of public enterprises, enforce accountability for performance effectively and contribute thereby to its better performance.

III

ORGANISATIONAL STRUCTURE OF PUBLIC ENTERPRISES

3.1 The Committee has discussed the issues regarding the appropriate organisational structure of Public Enterprises which would ensure their autonomy and also facilitate their efficient functioning. The Committee's recommendations on this subject are submitted below.

3.2 The autonomy of a Public Enterprise consists in the ability of its management to exercise the freedom of action in day-to-day operations, in taking all decisions affecting their performance without being restrained by any external authority, such as the Government. It should, however be recognised that in our situation there are some inherent limitations on this autonomy.

3.3 First, the Government of India is responsible to Parliament and if questions are raised in Parliament about the policies, performance and operation of any public sector enterprise, the Minister has to provide answers and accept the responsibility for the functioning of that enterprise. Because of this accountability to Parliament, public enterprises cannot be completely free from governmental scrutiny, not only of their general policies but occasionally also of some aspects of their day-to-day operations, where some lapses or abuse of public funds may be involved. Parliament's authority in such matters is supreme but it may be necessary to evolve a convention by which Members of Parliament accept some self-imposed restraints on the nature of questions they ask. The Committee has considered these issues in a later chapter.

3.4 Further, in our framework of economic planing, the policies of public enterprises, their investment decisions, their programmes for growth, expansion, etc., have to be dovetailed to national

priorities and mobilisation and allocation of resources. Even when the investment and expenditure decisions of some of these enterprises do not depend upon the Government's budgetary support, their overall impact on the economy through backward and forward linkages, their decision to buy equipment from indigeneous sources or import, their claim on the total economic resources, especially in the core sector, etc., may be so important as to require their reconciliation with the national plan objectives.

3.5 Similarly, wage and employment policies of different public enterprises would have implications for other enterprises and the national economy and, hence, will have to be subjected to some overall co-ordination.

3.6 There are also several enterprises which are making losses and which come to the Government for financial support in order to survive and it is not always possible for the Government to allow the companies to be liquidated as in the private sector. It will, therefore, be necessary for the Government to go into not only the broad policy decisions of these companies but also their day-to-day operations, so that their performance can be improved and losses reduced.

3.7 It will, therefore, be unrealistic think that the public enterprises could be made completely autonomous and independent from Government's supervision. Most Chief Executives of public enterprises recognise this fact of life and it appeared from the discussions the Committee had with all concerned that the basic problem was not that the Government's supervision or guidance was avoidable, but that it was often excessive and not based on well established rules and conventions. More often, they are not related to efficient functioning or for achieving the objectives of the Enterprise.

3.8 The need is, therefore, to evolve a set of rules and conventions by which the Government can help in the better functioning of the public enterprises and work out an organisational pattern which would reduce the points of intervention by the Government in the management of the enterprises, without minimising the Government's right to have needed information for evaluating performance. It is recognised by all that, on paper, managements of public enterprises enjoy large autonomy, sometimes much more than even by the private sector managements. However, in practice, informal and formal involvement of Ministries and Departments take place in areas wholly within the decision making powers of public enterprise management.

3.9 The Committee attaches considerable importance to devising a proper organisational structure for public enterprises in the belief that certain forms of organisations, rather than others, can be more conducive to the efficient functioning of the public enterprises through a proper division of authority and responsibility between the Government and the public enterprise management. Given this division, the system should run by established rules and not by arbitrary exercise of discretion.

3.10 In our approach Government should be primarily concerned with overall strategic planning and policy rather than with day-to-day functioning of the public enterprises. Government's responsibility is to ensure that public money invested in these enterprises earns an appropriate rate of return, and that the functioning of these enterprises is consistent with plan objectives, including those related to employment, fair pricing regional dispersal of industries and efficient use of scarce resource. Once the goals have been mutually agreed to, the enterprises should be allowed to operate without further intervention by the Government in day-to-day functioning. The enterprises should, however, be held strictly accountable for their performance in relation to the goals set and there should be an appropriate mechanism for evaluation of their performance.

3.11 The Committee disoussed, the length, alternative models of organisational structure for public enterprises, under which there will be a clear division of responsibility between the Government, as represented by the Ministry or Department, and the management of these enterprises, as represented by Board of Directors or the Chief Executive. In short, the Ministry should be responsible for the formulation of policy and the Management should be responsible for the implementation of that policy, and the interaction between them should be such as to facilitate the exercise of overall Government supervision, without impairing the efficiency of operation of the enterprise. Such an organisational structure should keep the operations of an enterprise at "arm's length" from the Government and promote decentralised decision-making within the enterprise.

3.12 One such form of organisation, widely practised in many European countries is that of a "Holding Company". While there are differences in models prevailing in different countries, basically Government's interface with the public enterprises takes place under these models at the level of the Board of the Holding Company which is responsible for day-to-day operations of a number of subsidiary companies. The Government in turn sets the goals and targets for the Holding Company and receives periodical performance reports regarding the overall efficiency of the latter's operations. The administrative responsibility in respect of individual companies is that of the Holding Company and the Government itself does not come in day-to-day contact with the individual companies.

3.13 Currently, a Ministry in-charge of a number of public enterprises, which are mostly unitary companies, not only gets involved with the Management Board of the enterprise but also in the coordination of decisions and activities of the different companies. The logic of "Holding Company" structure is to introduce an intermediate level of management *i.e.*, the Board of the Holding Company between the Ministry and the Companies, reconstituted as subsidiary companies. The Board of the Holding Company also takes up the job of coordination between the subsidiary companies. As a result, the interface between the Government and the subsidiary Companies is minimised without sacrificing the essential need for coordination of the

operation of the companies.

3.14 The Committee considered also the possibility of reorganising the existing unitary companies into what can be called Apex Companies with a Board of Directors, at the Apex level, about a number of Divisions or Units which would be either profit or cost centres. The objective would be to have centralised policy making with decentralised operation and administration. A local management committee in each division or unit may control the operation of the division or unit with adequate delegation of authority by the Apex Board.

3.15 While the Committee recognised that a uniform structure for all public enterprises may not be either feasible or desirable it felt that the concept of Holding Companies provided a reasonable framework of organisational structure. Where a Holding Company cannot be formed it, recommended structuring the Unitary Companies as Apex Companies on the lines as defined above. The relationship between Holding Companies and the Government should equally apply to apex Unitary Companies: The Government will ensure that the policies of the Holding or Apex Company are in line with the national plan objectives and general policies of the Government. But it will have no direct dealings with the Subsidiary Company or Divisions of the Holding or Apex Company as the case may be.

3.16 The relationship between the Holding Company or the Apex Company and the Subsidiary Companies or Divisions would be based, as mentioned earlier, on the principle of decentralisation. The Subsidiary Companies or Divisions concerned would be delegated all the authority needed for ensuring the fulfilment of targets and operational efficiency. The Boards of the Holding Company or the Apex Company as the case may be would evaluate their performance on the basis of well-defined criteria and performance parameters. The Board of the Apex or Holding Company will co-ordinate the operations of Subsidiary Companies or Divisions under their charge and supervise their functioning as well as employment, recruitment, wages, financial and pricing policies.

3.17 In this framework, whether public enterprises will be reorganised in the form of Holding Companies with Subsidiary Companies or in the form of an Apex Company with divisions as profit or cost centres will depend upon the size of the enterprises concerned, the technological interdependence between enterprises and the need for effective coordination of the decisions at different levels of management. If interaction between the Government and the public enterprises is limited, as suggested, only to the overall policies and performance evaluation as agreed with the Board of the Holding Company or Apex Company, leaving the subsidiary companies or Divisions to interact only with the respective parent organisations, the autonomy of the public enterprises may not be affected.

3.18 The Committee considered that the Holding Company structure is more useful both for an effective evaluation and monitoring of the performance of the enterprises and for a greater decentralisation of operation. The Board of the Holding Companies can evaluate the performance of the subsidiaries terms of definite performance norms while the Boards of the Subsidiary Companies can do similar evaluation of the operation of the units or divisions under them. As the subsidiary companies will be independent companies, under the Company Law, there will have to be a decentralisation of the decision-making process between the Boards of the Holding Companies and the Boards of the Subsidiaries. The Government would be involved with only the evaluation of the performance of the Holding Company in terms of a few selected criteria, fully assured that the peformance of the different subsidiaries of the Company has been effectively monitored by independent Boards of different levels.

3.19 A suggestion has been made that there is no need for representation of Government on the Board of Directors of the Public Enterprises. The Committee recommends that the institution of Government Directors should continue as, in general, they are a positive source of help and mediation between the Government and the enterprises. It should, however, be ensured that officials nominated as Government Directors had adequate experience of public enterprises. Where this is not so, such officials, before being nominated to the Board, should be given orientation for a sufficient period in one or more public enterprises under the charge of the Administrative Ministry concerned. In our view, wherever Holding Companies are being formed, the appointment of Government Directors should be restricted only to the Board of Directors of the Holding Company. The subsidiaries of the Holding Company need not have Government Directors on the Boards.

3.20 On balance of consideration, the Committee felt that public enterprises in the core sectors such as steel, coal, power, fetilizer and petroleum should be re-organised into Holding Companies functioning under the administrative control of the concerned sectoral Ministries. If a single sectoral Holding Company becomes too large, it may be necessary to set up more than one such Holding Company. It would facilitate co-ordination if major public enterprises which supply inputs, machinery and equipment to the producing units, and related consultancy organisations also are brought under the sectoral Holding Companies, for example, HEC and MECON for steel, MAMC for coal, EIL for petroleum, etc. In the petroleum sector, it may perhaps be necessary to have more than one Holding Company. We are not going into details. which should be worked out carefully.

3.21 The financing of investments for the core sectors would be mainly through the budget and, therefore, the present modes of scrutiny and controls would by and large continue. Holding Company would act as a link between the Government and the public enterprises and the areas of authority and responsibility between the government and the Holding Company would be clearly defined. The Government's involvement would be limited to:

(i) appointment of the Chief Executive and other members of the Board of Directors;

(ii) investment financing and project appraisal;
(iii) target setting, budget, performance evaluation; and
(iv) broad policy guidelines.

In all other matters the Holding Company and its subsidiaries would be subject to the same controls and procedures as in the case of private sector units.

3.22 The responsibility to the Parliament would be discharged by the Minister with the assistance of the Chief Executive himself who would assist in the answering of Parliament questions, debates, etc., concerning enterprises under his charge. The Secretary of the Administrative Ministry would not be concerned with these matters. The Board of Directors of the Holding Company would enjoy all authority consistent with their responsibility.

3.23 The Holding Company would also specify its plans for investments, production, capacity utilisation, profits, dividend etc., for a 5 year period and, therefore, enter into Memorandum of Understanding with the Government on mutually agreed basis. Certain obligations would also be cast on the Ministry or Department regarding provisions of equity, price level etc. This Memorandum of Understanding would be reviewed each year and updated and the performance of the Holding Company judged on this basis, making due allowance for the failure or otherwise of the Ministry or Department to fulfil its part of the Understanding.

3.24 For the Companies in the non-core sector, an exercise should be done to re-organise the enterprises into a few Holding Companies and some Apex Companies (*i.e.*, Unitary Companies with Apex Board and Subsidiary Profit Centres) depending upon the nature of the products, the location and the other linkages. The Committee also felt that all these non-core sector Units should be under the sectoral Ministries. The enterprises in the non-core sector generally operate in a competitive environment with a substantial private sector presence. The sectoral Ministry will formulate sectoral policies which will apply to both public and private sector units. But unlike in the Core Sector the Ministry's involvement here will be limited only to administrative supervision including appointment of the Chief Executives and members of the Boards of Directors and evalution of their performance according to some well-defined norms and criteria.

3.25 There are a few promotional corporations set up in the public sector like the Indian Dairy Corporation and the National Research Development Corporation of India. The Committee suggests that promotional corporations should be more appropriately set up under an Autonomous Board or as a registered society. These promotional corporations would have to remain within the charge of the concerned sectoral Ministries since they are primarily instruments of public policy.

3.26 The Committee observed that many of the taken-over units from private sector were located in sectoral Ministries which were not appropriate. The grouping of small public enterprisesin to larger ones, particularly from among the Engineering and Pharmaceutical enterprises also needs urgent attention.

3.27 The Committee, therefore, recommends that a Working Group be formed by the Government to go into and make recommendations on the following:

(i) transfer of existing public enterprises, or any of their constituent units, to the appropriate sectoral Ministry;
(ii) merger of existing public enterprises into smaller number of companies by appropriate grouping;
(iii) formation of Holding Companies and Apex Companies under the sectoral Ministries from among the sectoral public enterprises;
(iv) based on the re-organised Holding and Apex Companies, suggest, where necessary, transfer of certain subjects for nodal responsibility from one Ministry or Department to another.

IV

AUTONOMY OF PUBLIC ENTERPRISES

4.1. The objective of setting most of the public enterprises as corporate entities was to provide the maximum autonomy in their day-to-day management. However, in practice, the decision-making powers of public enterprises and its Board of Directors are restricted to a great extent due to specific clauses in their Articles of Association, Bureau of Public Enterprises and Government guidelines and directions, the procedures followed for scrutinising investment fundings, choice of projects, wage policy, etc., issued from time to time in addition to all other controls and regulations which are common to both the public and private sectors. We feel that the division of decision-making power on commercial matters between enterprise and the Government needs to be examined and modified In what follows we do this for some of the major areas where decision-making powers of public enterprises are limited by the requirements of prior approval of Government of India or by having to be in conformity with specific guidelines.

A. INVESTMENT APPROVALS AND CAPITAL BUDGET

4.2 The present system of investment financing for public enterprises integrates their plans fully into the total public sector plan. As a consequence, the investment activities of public enterprises are subject to Government approvals and several stages. Certain consequences of this system of investment financing are worth noting:

— Since internal resources of public enterprises are a part of plan resources, the outlay provides for a planned investment programme irrespective of whether the outlays are financed by internal resources or from the budget;
— The extent to which public enterprises mobilise resources from capital market directly is very limited and they obtain the bulk of their finances through the budget;

— There is a virtual guarantee of investment finance to cover cost and time overruns.

4.3 The intimate links between public enterprise investment plans and the budget has led to a complex system of governmental approvals for individual proposals. In order to integrate their plans with the national plan, an enterprise has to interact with Government at several stages.

— The investment proposal must form a part of the Five Year Plan and therefore must be included in the recommendations of the Working Group on the particular sector. The investment proposal has to be included in the concerned Ministry's plan and the plan as finally approved.

—The investment proposals are formulated in consultation with the Administrative Ministry and other Government Departments for certain crucial parameters like location, size, technology, etc.

—If the proposals are beyond the financial powers of their Board of Directors, these have to be scrutinised by the Public Investment Board (PIB) or Expenditure Finance Committee (EFC) and the approval of Cabinet is also necessary in some cases.

—Even after the investment proposal is approved, the public enterprise has to obtain approval annually for its capital expenditure programme.

4.4 Despite such rigorous scrutiny and Government interventions, in practice, the system does not really provide greater leverage in regulating the public sector's draft on resources. Unforeseen cost overruns, which have to be financed, losses which require budgetary support and delays in implementation of projects actually increase the uncertainty with regard to formulation of budget whereas excessive government intervention prove to be time consuming and at the same time erode the autonomy and responsibility of the public enterprise management in implementing the projects. While the enforcement of plan priorities though detailed and project-by-project, scrutiny on public enterprise investment may work in a few sectors where the public sector dominates, it is of limited utility in other sectors. The Government cannot really exercise its responsibilities as a lender since public enterprises are sometimes required to undertake unremunerative projects. Thus, in practice the present system does not really facilitate the processes of budgetary control or investment on plan priorities. At the same time, it probably leads to a measure of financial irresponbility in the public enterprise.

The Proposals

4.5 The direction of reforms in the present system of investment financing has to be in line with the importance of public enterprise investments in the national plan. In this regard, a distinction has been made in the previous chapter between (a) core sector enterprises, (b) financially viable enterprises in the non-core sector and (c) enterprises in the non-core sector which are incurring losses. The Committee was of the view that in the case of core sector enterprises, the existing system of fully integrating their plans with the total public sector plan must continue since in most cases the public enterprise plans and co-turminus with the national sectoral plans. Many of the core sectors are highly inter-linked and, therefore, this calls for co-ordination with other sectoral plans. The resource requirements of these sectors is also very large and, therefore the present system of scrutiny of all their investment proposals, whether financed through national budget or through the funds raised by the enterprises themselves, has to continue.

4.6 In the case of the financially viable non-core sector, there does not seem to be any need for such detailed scrutiny and the public sector investment plan should include only the flows through the budget. To the extent, these enterprises can finance their investment requirements, by raising funds from the public through deposits or debentures or by borrowing from the financial institutions, they need not be subjected to any process of governmental clearance.

4.7 This approach is linked to certain changes in procedures for investment approval. In the core sector the nature of scrutiny and approval at the Government level will, if anything, have to be made more effective. Since the commitment of the Government here will not be only for equity but for the total project cost, and because the cost of failure from a wrong investment decision is very high, the system of Government approvals for these sectors should be built around the two-stage clearance procedure of PIB. The first stage which gives approval in principle and sanctions preliminary expenditure should be the stage at which basic questions about plan priorities, project parameters, investment decisions, etc, should be settled. The second stage would really be for scrutinising the details with regard to technology, costs etc.

4.8 At the first stage itself discussion could be started between the user industry and the manufacturers of equipment. PIB should set up a 'task force' for this purpose consisting of, *inter alia*, representatives of both the producer and the user. This 'task force' would go into all aspects relating to internal availability of equipment, capability of public enterprise to manufacture the equipment, the need for import, the quantum of import, etc.

4.9 At the second stage the projects should be considered on a detailed project report, adopting the procedure of a single window clearance. PIB could take a view whether equipment will have to be imported or order should be placed on indigenous manufacturers. Foreign exchange clearance should also be tied up especially by incorporating capital goods clearance procedures. Any question relating to price preference could also be settled by PIB on the basis of the recommendations of the 'task force'. Where, however, certain investment proposals are tied to available credits from external sources, this exercise would have to be performed as usual, in consultation with the Finance Ministry. Since all the Ministries are represented on PIB, this second stage could thus combine the usual PIB clearance with the approval for financing packages, external credits, collaboration agreements, capital goods imports, locational and environmental aspects etc.

4.10. At present proposals which fall beyond the

delegated powers of the public enterprise but are estimated to cost Rs 10 crores or below are brought before the EFC for approval. Investment proposals costing above Rs 10 crores require the approval of the Cabinet and these are brought before PIB. It is suggested that these limits be raised as below:

(i) EFC — Investment proposals costing above Rs 5 crores but not above Rs 25 crores.

(ii) PIB — Investment proposals costing over Rs 25 crores.

Corresponding changes should be made in the delegated powers of the public enterprises.

4.11. We would also suggest that EFC/PIB should be served by a single Appraisal Agency which should be the principal point of contact between the public enterprise and the various agencies which scrutinise the investment proposals. All these various agencies should be required to provide their comments to the single modal agency which should integrate them into a comprehensive appraisal report to be submitted for consideration of EFC/PIB. We feel that the Project Appraisal Division of the Planning Commission should be this nodal agency, and for this purpose it should be suitably strengthened.

4.12. Currently the public enterprises submit their investment proposals to the PIB through the Administrative Ministries, which invariably introduces delay. When an investment proposal is cleared by the Board of a Holding or Apex Company, the same would be sent simultaneously to both the Administrative Ministry and PAD for appraisal. If the Administrative Ministry does not bring up the case before the PIB within three months, PAD may do so and comments of the Administrative Ministry, like those of any other Ministry, should be examined as a part of the normal PIB procedure.

4.13. In the case of *enterprises in the non-core sectors* which are financially viable investment projects usually are not very large and, therefore, it should be possible to mobilise bulk of resources for these investments outside the budget. In these sectors, therefore, the flow through the budget can be restricted to the contribution towards equity and such enterprises should be expected to mobilise the rest of their resource requirements through —

(a) Internal resources generation;

(b) Project finance from term lending institutions; and

(c) Direct mobilisation through public deposits and/or non-convertible debentures, without Government guarantee.

If this reform is accepted the plan ceiling for these enterprises may relate to only the equity contribution from the Government which will be sanctioned through the PIB procedures.

4.14. These changes suggested in the modalities of financing public enterprises, imply certain modifications in the role of the Government machinery in project approvals. In the non-core sectors, enterprises will be expected to mobilise funds through financial institutions and capital markets. This will generally mean that investment proposals will be subject to some form of external scrutiny and appraisal. The main difficulty will be that financial institutions and capital markets will be mainly concerned about the backruptcy of these projects rather than their impact on the economy as a whole. The Government may, however, wish to use some of these enterprises as agencies for the establishment and development of a new technology or for the development of a backward area observe some other social objectives which may not be commercially profitable. In such cases, either the Government has to make substantial equity contribution or some mechanism has to be developed to reimburse the additional net cost of such activities. This kind of projects would go through the normal procedures.

4.15. Therefore, some form of Government approval for the investment programme of even non-core enterprises will be required if they required additional equity contribution from the budget. The Five Year Plan will indicate the amount of investment by way of equity that Government would be willing to make, the rest of investment being loans raised by debentures, public deposits, and from public financial institutions. Therefore, as and when particular projects are formulated such projects will be appraised, by the public financial institutions in association with central appraisal agency of Government. On the basis of such appraisal, funds will be released by Government and by the institutions without passing through any further procedures or processes in Government. Contribution by Government in whole, or in substantial part, will be subject to usual approval, above Rs 25 crores by the Government (Cabinet). This modality of raising funds partly through Government (equity) and through external sources/banks and public financial institutions will be open only to those non-core public enterprises which have a dividend record of at least 9 per cent on net worth or 50 per cent of net profits, whichever is lower, distributed over the past three years. One of the existing financial institutions like the Industrial Development Bank of India would service such public enterprises. For this purpose, a specific allocation would be made to the earmarked financial institution for a period of 5 years.

4.16 The Committee considered the possibility of some public enterprises raising funds from the public through sale of shares. It was felt that only companies which were performing well may be in a position to raise funds from the capital market through the sale of shares, which they could do as well through raising deposits or floating non-convertible debentures. While raising of loans involves a fixed liability, selling shares may create problems of ownership without giving the public sector enterprise any greater advantage. The Committee, therefore, did not recommend selling of shares to the public by existing public sector companies.

4.17 An important corollary of the liberalised investment procedure is that restrictions on the borrowing powers of the enterprises based on the Articles of Association or Government guidelines, if any, would have to be removed in respect of the financially viable non-core enterprises. They would, of course, continue to be subject to the normal

guidelines applicable to all enterprises, public or private. It must also be emphasised that such borrowings of these enterprises through public deposits or issue of debentures should not be guaranteed by the Government. For any borrowings based on Government guarantee prior approval of the Government would be necessary.

4.18 The third category of loss making units poses certain special problems. The appraisal of their investment projects and the mechanism of approval will have to be linked to programmes to make them viable by reducing their losses and improving their performance. These are dealt with fully in a subsequent Chapter.

B. WAGE POLICY IN PUBLIC ENTERPRISES

4.19 Workers in public enterprises are governed by the Industrial Disputes Act and their remuneration levels and patterns are determined by a collective bargaining process, except in a few industries (like Textile and Cement) where these are settled by industry-wise Wage Boards. In respect of some industries, wages are determined on the basis of a bipartite machinery consisting of the management of the public and private sector enterprises on the one hand and the workers' representatives on the other. Historically the long-term settlement between the enterprises and the workers' unions has been a period of three to four years.

4.20 In the sixties, the Government of India as such was not deeply involved in the negotiations. Limits were set in terms of percentages within which the managements were expected to negotiate. The management would keep the Board of Directors fully informed of the progress. The Government representatives on the Board, both in the Administrative and Finance Ministries, were expected, in turn, to keep the Government informed of the progress. However, no final commitment by the management could be made to the workers without obtaining the concurrence of the Secretary and the Minister of both the Administrative and the Finance Ministries.

4.21 Nowadays, in practice the managements clear with the Administrative Ministries and the Bureau of Public Enterprises the global limits within which they could negotiate, as well as the individual components of the package like House Rent Allowance, Transport Subsidy, Shift Allowance, Tiffin Allowance, Canteen Subsidy, etc. Once consensus is reached and the managements feel that they have carried the workers with them, formal proposals are sent to the Administrative Ministries and after obtaining the approval of the Minister concerned, sent to the Bureau of Public Enterprises to process the case for the approval of the Finance Minister. Formal agreement between the management and the unions is concluded only thereafter. In many cases Memoranda of Settlement have also been signed by the management and the workers incorporating a clause to the effect that the provisions of the Memoranda of Settlement would be subject to the approval of the Government.

4.22 Apart from the basic pay, Dearness Allowance linked to the cost of living index, HRA, CCA, Transport Subsidy, Shift Allowance etc., there are two other components of workers' remuneration. These are the Annual Bonus according to Section 20 (i) of the Payment of Bonus Act, 1965 or Bonus linked to production in lieu of profit sharing under Section 31 (A) of the Bonus Act, 1965 and Production Incentive Schemes operated on an integrated basis outside the provisions of the Payment of Bonus Act.

4.23 Payment of bonus under Section 20 (i) of the Payment of Bonus Act is applicable to those enterprises which derive not less than 20 per cent of their income in competition with units in private sector. They are allowed to disburse bonus as per provisions of the Act on the basis of determination of allocable surplus based on audited figures. Public enterprises not governed by Section 20 (i) of the Payment of Bonus Act but coming within the purview of Sub-Section (ii) of Section 20 are authorised ex-gratia payment equivalent to the amount they would have been entitled to get as bonus had the enterprise fallen within the purview of the Bonus Act, 1975. Executive instructions are being issued to the Managements from 1976 onwards in this regard.

4.24 Productivity linked incentive payment schemes have been introduced by several public enterprises either under Section 31 (A) of the Bonus Act which envisages payment of bonus linked to productivity over and above the minimum statutory bonus or outside the framework of the Act. Public enterprises are required to get the approval of Government for the productivity linked payment schemes introduced by them. They are also required to review the existing schemes in the light of some guidelines.

4.25 At present there is a feeling among the public enterprises that they have very little autonomy in the matter of wage negotiations since Government approvals are required for virtually all components of the wage. They would like greater degree of freedom in arriving at a settlement with workers as part of the collective bargaining process. However, there are certain difficulties inherent in letting each enterprise negotiate independently. Competitive bargaining is not always based on the performance of the enterprise itself, but on what has been conceded to workers in another enterprise either in the same location or which is similar in technology, size, etc. This comparison does not confine itself to the total benefit but also to individual components like minimum wage, HRA, CCA, Washing Allowance, Education Allowance, LTC, etc. In this situation some suitable compromise between bargaining at the enterprise level and a wage policy dictated from above is necessary. At the same time a clear link with productivity is also needed for the health of not only the public sector but also the organised sector as a whole.

4.26 It is, therefore, suggested that the basic wage structure of the employees of public enterprises (covering basic pay, Dearness Allowance and certain standard allowances like HRA and CCA) should be determined on industry basis or on industry-cum-region basis. This can be done either by a Wage

Commission or through the mechanism of industry-wise wage boards and settled for a period of five years.

4.27 In addition to this basic wage, there should be a component which should be linked with productivity which may be negotiated by each enterprise with its employees within the constraint of a certain amount specified as ceiling for the total annual cost of such incentives. The amount may be determined in consultation with the Government on the basis of profits earned by the enterprise or substantial reduction in the losses. In some sectors, adequate cushions must be provided for factors relating to administered prices, increase in input costs on policy grounds etc., so that the lack of profits does not impinge on the ability of the workers to earn what they should on the basis of total productivity improvements achieved.

4.28 In devising the above scheme, the Government would give the broad guidelines and the Board of Directors of the enterprises should be given full authority to take decisions which, if they are within the guidelines, should not require the prior approval of the Government. Such a scheme would fulfil the twin objectives of increasing productivity of the existing capital assets, at the same time giving incentives to the workers to earn higher wages than they would otherwise have.

4.29 With regard to the payment of bonus, we do not suggest any change in the present procedure. It may, however, be desirable not to expand this scheme very much in the future, so that most of the increases in wages, over and above the basic wages and the minimum bonus, are granted to the workers through the productivity incentive schemes."

C. EXECUTIVES' APPOINTMENTS AND REMUNERATION

4.30 The power to appoint and dismiss Chief Executives and full-time Directors vests at present with the Government. This is as it should be and even in the private sector such appointments have to be approved by the general body of the shareholders. However, this particular power of the Government can lead to the erosion of autonomy by the exercise of informal interference in decisions which, otherwise, do not require its prior approval. Hence, we would like to suggest certain changes which will help to safeguard the autonomy of the Chief Executives and the full-time Directors in the exercise of the powers which are theirs under the rules and yet subject them to the test of performance.

4.31 The present practice of giving the Chief Executives and the fulltime Directors a tenure of two years including probationary period of one year is acting as an inhibiting factor in their performance. In respect of large organisations these officials could not be reasonably expect to bring about any noticeable changes or improvements within a spell of two years. Therefore, with a view to improving organisational efficiency, it is recommended that the tenure of the Chief Executives and full-time Directors should be 5 years subject to a probationary period of one year and removal at three months' notice for unsatisfactory performance. The top management of public enterprises must have the security of knowing that, provided they perform well, they will have a tenure long enough to show results. We would also suggest that non-confirmation of dismissale of a Chief Executive of Functional Director should be decided by the Appointments Committee of the Cabinet (ACC) only after taking into account the views of the Public Enterprises Selection Board. In the case of resignations by the Functional Directors/Chief Executives, acceptance thereof will be with the approval of the ACC.

4.32 The authority to appoint part time Directors also rests with the Government. However, we would suggest that the concerned department should always consult the Chief Executive before finalising the list of part-time Directors. The non-official Directors should have a tenure of 3 years. The Committee feels that vacancies on the Board should not be left unfilled for a long time.

4.33 The power to create Board level posts rests with the Government and we would not suggest any change in this. However, in some cases, the Articles of Asspciation also limit the power of enterprises to create posts above a certain limit but below Board level. We would suggests that, in such cases, the Articles of Association be modified to give the Board full authority to create posts with a pay scale below Board level.

4.34 Recruitment to posts below Board level is within the powers of the Board of Directors. However, recently it has been decided that even if a post is below Board level, if it carried the pay scale of a Board level post, recruitment will be in consultation with the PESB. We feel that in consonance with the concept of autonomy of the public enterprises, appointment to such posts also may be left to the Board of Directors of the enterprise.

4.35 Board level posts in public enterprises are categorised into four schedules and the authority for doing this rests with the Government. We would not recommended any change in this except that the categorisation should take into account the specific needs of each company along with indicators like investment, profitability, number of employees, number of independent divisions etc. Sometimes Chief Executives or Functional Directors may be required at a level higher than indicated by their category in sick or high technology units. In such a case the Chief Executive or the Functional Directors, as the case may be, could be given a higher scale on a personal basis. In other cases, upgradation of posts on personal basis should be permitted only under the most exceptional circumstances.

4.36 There is presently considerable gap between the remuneration of Chief Executives/Functional Directors of public enterprises and private sector companies. The Committee felt that there is a strong case for narrowing this gap. This can, however, be considered only after the recommendations of the Fourth Pay Commission are received. A Working Group may be set up at the appropriate

time to specify salary scales and perquisites. The Committee suggests that executives should be entitled to participate in the productivity-linked bonus schemes.

4.37 The Committee felt that as far as the housing was concerned, public enterprises should go for either construction or purchase of flats. In the meantime, the Chief Executives and Functional Directors could be provided with houses, the rental ceiling being raised to the equivalent of their basic pay, without changing the provisions regarding the plinth area. As regards Executive Directors, the salary ceiling of hiring a house may be raised to 75 per cent of their basic pay. The Working Group suggested in para 4.36 may also look into this.

4.38 Disciplinary proceedings against Board level appointees is the responsibility of Government which is the appointing authority. However, in respect of below-Board level executives, in certain cases, the intervention of Central Vigilance Commission is necessary according to present procedures. We feel that this can be dispensed with and disciplinary proceedings against employees below the Board level should be entirely within the powers of the Board of Directors.

4.39 The Committee recommend that the performance of the Chief Executive of the enterprise as evaluated according to agreed parameters should form his performance record for the year. In the case of Functional Directors there is no need for a review of the Annual Confidential Report written by the Chief Executive. However, wherever an adverse report is given, the Functional Directors has a right to appeal to the Secretary of the Administrative Department.

4.40 One of the most vital but neglected areas in public enterprises has been the training or retraining of workers and supervisors, managerial development at induction and at middle levels as well as succession planning for the top posts. It is not possible to give a common prescription for all types of public enterprises. Firstly, the emphasis over this area must increase. Further, it is desirable that each enterprise management must submit to its Board of Directors, once a year, a manpower budget, the training or retraining plans for all category of employees, particularly the managerial cadres. These plans to be submitted before the start of the financial year must contain details and contents of well designed training or development courses and should be debated extensively by the Board of Directors. It is important for the Boards to approve such promotion policies that more competent managers move to higher positions relatively faster so that it is ultimately possible to fill the top management positions from within. Persons below the level of the top positions must undergo advanced management training in and outside the country. In large Holding Companies and Apex organisations, inter-disciplinary in-plant management development courses should also be organised in order to improve the competency of managers in general management, financial management, commercial and marketing operations, production and productivity management, etc. Personnel policy of a company must provide for management development training input to be provided for a pre-determined number of days or weeks training on an average to each executive. Induction level training of one year's duration which is given to executives in many organisations should include adequate training in the technical discipline for which they are earmarked.

4.41 Mobility of managerial personnel between the public sector enterprises should also not be discouraged. However, on completion of long term training course or on induction to an organisation, on a higher position or on promotion within the organisation the concerned executive must continue to serve the organisation for a period to be specified in the personnel policy.

V

ACCOUNTABILITY OF ENTERPRISES

5.1 We have dealt in the previous section with measures which will enhance the degree of autonomy enjoyed by public enterprises. In our view we also need to make public enterprises more accountable for their performance. Hence the present processes of accountability which operate through the evaluation of performance in the Government, through audit and through Parliamentary scrutiny needs to be modified and strengthened. In what follows we deal with these three channels of accountability.

A. PERFORMANCE EVALUATION

5.2 The organisational changes and the expansion of autonomy that we have suggested require that the accountability for performance should be strictly enforced. In order to do this, performance criteria and procedures for reporting and evaluation have to be specified.

5.3 In discussing the organisational structure we have discussed the possibility of a Memorandum of Understanding being arrived at between Government in the Administrative Ministry and the Public Enterprise Management well before the commencement of the financial year. In these cases, the evalution of performance has to be in terms of the extent to which such an understanding has been fulfilled. Due allowance will of course be given to any part of the Memorandum of Understanding which the Government has not fulfilled and which impinges on the performance of the public enterprise. Such a Memorandum of Understanding, however, could cover only a few enterprises where the details of tasks of either partly could be specified. So, it is necessary that a more general set of performance criteria is evolved.

5.4 Public enterprises pursue a number of objectives simultaneously and a single measure of performance is difficult to specify. However, there are certain objectives which are common and these should form the basis for general performance

criteria. These general criteria may fall into four groups:

1. Financial performance.
2. Productivity and cost reduction.
3. Technical dynamism.
4. Effectiveness of project implementation.

FINANCIAL PERFORMANCE

5.5 In our view, the criteria for financial performance are the most important, in that, public enterprises are expected to play an important role in the mobilisation of resources and they can do so only if they are financially viable. We would recommend three basic criteria*:

(i) Gross margin on assets (for all enterprises).

(ii) Net profit on net worth (for core sector and profit making enterprises).

(iii) Gross margin on sales (for service enterprises).

5.6 The standards against which financial performance has to be evaluated will have to vary for: (a) core sector enterprises; (b) financially viable enterprises in the non-core sector; and (c) loss making units.

5.7 Enterprises in the core sector are generally subject to price control and their financial performance is affected by this fact. However, some normative rate of turn is often implicit in price fixation procedures and can provide a standard for comparison. In any case, an inter-firm comparison of performance is always possible within each sector. In general, after allowing for distortions induced by lags in price adjustment, the rate of net profit, as defined above, should be at least a stipulated per cent which can be fixed for each enteprise at the beginning of the year. The gross margin on assets should be improving over time.

5.8 In the non-core sector, manufacturing enterprises in the public sector generally operate in a competitive environment with a substantial private sector presence. Some of them (*e.g.*, cement, drugs) are subject to price control. In general, for these enterprises, the criteria for comparison should be the industry average both for gross margin on assets and the rate of net profit. This will of course only apply to profit making units.

5.9 Many service enterprises in the public sector operate as monopolies or have special privileges which allow them to function on a cost plus basis. Moreover, the capital base on these service units is very different from what it is in manufacturing enterprises. In service enterprises, it may be more useful to focus attention on the direction of change in the gross margin on sales, though the other measures of financial profitability should also be examined. Wherever service enterprises operate in a competitive environment, a comparison with private sector units would also be useful.

5.10 In the third category of loss making units, it is clearly not possible to examine measures of profitability. However, the gross margin should be positive so that the loss making unit is at least covering operating costs. In addition, it may be useful to monitor the direction of change in a few other measures like (a) the ratio of loan liabilities to assets, (b) the ratio of wages to value added per worker, and (c) cash loss per worker.

PRODUCTIVITY AND COST REDUCTION

5.11 Monitoring performance in terms of financial profitability has to be supplemented by some simple monitoring of productivity and costs which, in manufacturing enterprises, can be done by examining the direction of change in indicators like capacity utilisation, raw materials costs (at constant prices) per unit of output, value added per rupee of wages etc. Wherever possible, an overall index of the cost of production should be worked out to provide a measure for monitoring changes in costs and productivity. It is particularly important to undertake such monitoring of costs and productivity in the core sector enterprises besides evaluating their performance in fulfilling the plan targets for production. In service enterprises, the productivity can be monitored by looking at the direction of change in the utilisation of fixed assets, number of days of inventory and manpower per unit of turnover.

TECHNICAL DYNAMISM

5.12 The third group of performance indicators relate to technology development. In this case a simple quantitative indicator is difficult to define. However, a rough indication can be provided by the number of product or process innovations introduced or patents obtained during the year. Such an indicator is undoubtedly subject to vagaries of interpretation of what constitutes an innovation and has to be supplemented by a qualitative assessment by technical experts (say, the Science Advisory Committee attached to the Ministry) or the quality R&D technology adaptation and quality control in the enterprises. Additional indicators are reduction in cost of production as a percentage of its total cost, efficiency level of the product, export competitiveness, sale of know-how etc.

PROJECT IMPLEMENTATION

5.13 The fourth set of performance indicators relates to project implementation. At present, there is an elaborate system of progress reporting; but it is too detailed to provide a simple measure of the quality of performance in project implementation. Therefore, some simple indicator of project implementation status is required. In the case of core sector enterprises, at least an attempt can be made to assess performance in terms of (a) percentage utilisation of plan funds and (b) average slippage in ongoing projects, the weights for the average being defined by the cost of each project, and (c) percentage cost revision for the approved investment programme relative to the previous year.

5.14 The four sets of performance indicators

*Definitions are as follows:

Gross Margin: Sales minus operating costs (excluding interest).

Assets: Gross fixed assets plus inventories.

Net Profit: Gross Margin minus depreciation minus interest.

Net Worth: Equity plus reserves.

Gross Margin on Sales: Gross Margin divided by sales.

that we have suggested may have to be supplemented by other indicators to cover specific special tasks, if any, assigned to enterprises by the Government. These special tasks should really be treated as a type of understanding between the Government and the enterprise and appropriate performance indicators should be specified at the time the task is assigned and the Government may be required to compensate for the extra cost.

5.15 The method of performance evaluation that we have suggested may require the monitoring of ten or so indicators for core sector enterprises and a very much smaller number for non-core enterprises. These indicators should be reported on a quarterly basis by the Holding Company, or the Apex Company for the organisation as a whole. An annual performance evaluation report should be prepared on such enterprise by a group constituted by the Administrative Ministry with representatives from the Ministry, the Planning Commission and BPE and made available before the Annual Plan discussions for the next year and also to the Public Enterprises Selection Board. We suggest this because performance evaluation will lack bite unless it is taken into account in investment decisions and in appointments, promotion, confirmations and extensions for top management.

5.16 The performance indicators and the procedures that we have sggested are very much simpler than the present Management Information System instituted by the Bureau of Public Enterprise vide their O.M. No. BPE/GL-003/75/1&R/16(4)72 dated 11 March, 1975. This system collects a vast amount of information and envisages an elaborate system of quarterly performance review meetings. The Planning Commission also holds a parallel set of review meetings. We feel that our approach to autonomy and accountability requires a less intensive form of interaction. In fact, the primary concern of the Government should be to exercise the responsibilities of an owner who should concern himself not with details of all operations but with the results in terms of a few indicators. An excess of monitoring dilutes not merely autonomy but also accountability since in a welter of figures and meetings, an overall assessment of performance becomes difficult. We would therefore, suggest that the existing Management Information System and the quarterly monitoring by the Planning Commission be abandoned. Enterprises which need the assistance of the secretariat can always seek such assistance as and when necessay. The Government Secretariat can also obtain specific information, when the need arises, from the enterprises. The only element in the existing system that may need to be retained is a system of production reporting as it applied to DGTD units, and progress reporting on major projects costing more than Rs. 100 crores.

5.17 Detailed monitoring should be the responsibility of the Holding Company or the enterprise. The Government should insist that in each public sector unit, there should be a well defined Management Information System (MIS) linking all cost or profit centres to the top. In fact, this MIS should be the basis on which top management reports performance indicators to the Government so that they are in a position to provide any clarifications that may be required in the evaluation process. The items which should be covered in the MIS should be left to each Holding Company or enterprise. However, it is our expectation that the performance indicators we have suggested will induce top managements to monitor a wide range of production, productivity and cost variables and thereby generate pressure for improvements in efficiency and profitability. On the basis of the performance evaluation criteria evolved, a Working Group would go into the MIS requirement.

B. ROLE OF THE COMPTROLLER AND AUDITOR GENERAL

5.18 At present most public enterprises are subject to "two audits", one by the chartered accountants and the other, a supplementary audit. by the Comptroller & Auditor General (C&AG). The first is a requirement under the Companies Act and the second is a consequence of the fact that these enterprises have been financed out of public funds. The chartered accountant's audit deals mainly with questions of regularity *i.e.*, whether accounts are correctly maintained, expenditures and receipts correctly booked, etc. C&AG does not carry out a repetitive audit over that of the statutory audit but only some test checks where necessary. Besides, he also looks at the propriety of the transactions.

5.19 Besides, the supplementary audit, the Auditor General also carries out a periodical performance audit of the public enterprise through the medium of an Audit Board which includes industrial specialists and experts on general management.

5.20 The general consensus in the Committee is that the performance audit of the Auditor General should be continued. These reports serve a very useful purpose and have generally earned the respect and admiration of the legislator and the discerning public.

5.21 It is, however, a moot point whether supplementary audit on the Annual Accounts of Public Enterprise should continue. A large number of Chief Executives have suggested doing away with this aduit. In their view certificate of a firm of Chartered Accountants regarding "the true and fair" view of a company which is in accordance with the statutes of the country should be acceptable in the case of public enterprises also. In their view, therefore, the additional certificate presently given by the Auditor General in the case of public enterprises was superfluous.

5.22 The Committee noted that in public enterprises common accounting policies and accounting standard have not yet been evolved. This is very essential and we would suggest framing of common accounting policies and standards for the public enterprises without further delay. Once this is done, the Committee recommends that supplementary audit by C & AG may not be considered necessary in respect to profitable non-core companies. Necessary amendment to the Companies Act is, therefore, suggested in this regard.

5.23 For large enterprises in the core sector,

supplementary audit as at present may be continued by C & AG. The Committee would, however, recommend that attention be focussed on major lapses. The Committee noted that in statutory corporations like Air India, Indian Airlines, etc., regular audit by the Chartered Accountants is not carried out and the audit is done by C & AG. If, therefore, in the large core sector enterprises, it is necessary to avoid "two audits" it is suggested that the regular audit by Chartered Accountants may be dispensed with and only audit by C & AG provided for by suitable amendent to the provisions of the Companies Act.

C. RELATIONS WITH PARLIAMENT

5.24 The normal Parliamentary practice of the accountability of the Minister-in-charge to the Parliament involves answering questions by Members of Parliament, debates on particular issues, debate on the Demands for Grants, etc. In a Parliamentary form of Government these matters are normally left to conventions and, ultimately, to the authority of the Speaker. The late Speaker, Shri G. V. Mavalankar had also envisaged in a letter to the then Prime Minister that "asking of questions or raising discussions on the working of such bodies by the whole House is neither desirable nor practicable. The corporations must be left free in their day-to-day administration and the Ministers should not be called upon to answer detailed questions or discussions in the House, except on such occasion when questions of some general policy has to be raised or discussed."

5.25 Accountability to Parliament is a major reason for continuous surveillance and involvement by the Ministry or Departments of the Government in the operations of public enterprises. This involvement sometimes relates to matters which are wholly within the powers of the Board of Directors of the enterprise. The informal involvement dilutes the autonomy and impairs the efficiency of operation of these enterprises. A convention must be evolved by which this is avoided.

5.26 The Committee recognised that in general Parliament's intervention in regard to the overall performance of public enterprises had a very beneficial impact. However, the accountability of the enterprises should be for performance and results, We would, therefore, submit for consideration the following suggestions which would help to enforce accountability of public enterprises more effectively:

(i) Parliament questions on day to-day operation and management of the public enterprises may be avoided.

(ii) Committee on Public Undertakings (COPU) can examine and probe the working of public enterprises in depth and in direct contact with public enterprise management.

(iii) The debate on the Demands for Grants of the concerned Administrative Ministry could be used for purposes of a debate on the performance of public enterprises under the control of the Administrative Ministry. The tabling of the Annual Report and the Accounts of the enterprises can also provide on occasion for a general discussion on the performance of the enterprise.

VI

TECHNOLOGY UPGRADATION

6.1 Studies have shown that a number of public enterprises have not made sufficient efforts to absorb imported technology or in some cases at adaptation to the Indian environment. This has led to considerable losses in both output and productivity, high rejection rates, lowering of quality standards etc. The transfer of know-how of imported processes and designs to suit Indian environment should take into account availability of strong product design and engineering manpower as well as production engineering group of a high calibre. It is only through the efforts of such personnel that continuous efforts are required to be made to modify the designs and processes to suit new material inputs and environments and to develop new products more appropriate for Indian conditions. In the absence of such personnel, transfer of "Know-why" from a callaborator does not take place and the implementation of an agreement is confined to "Know-How" only. In some cases, there are only one or two enterprises in the country, in the public sector, which use the outpot of products of producing organisations. In cases of such monopoly users they should concur the selection of imported technology, product size and design. These designs and sizes should also not be changed very frequently because in doing so, the unit cost of production, many a time becomes higher leading to a burden on the economy not justified by corresponding higher productivity etc.

6.2 The Committee felt that apropriate mechanisms should be established in the enterprises linkage wherever necessary and to ensure prompt absorption of imported technology as well as its adaptation and, wherever possible, further improvement. The product design and R & D personnel should be involved from the beginning of the process of import of technology, at the stage of the formulation of the proposal. Fullest use of overall national capabilities, and planning out the technology planning and development of the demestic equipment manufacturers to meet the long-term technology requirement of the public enterprises, should be considered carefully before a decision is taken on importing a particular technology. The committee also recommends that in addition to strengthening of product design, process engineering, production engineering groups etc., adequate investment should be made on R & D centres in the enterprises to facilitate such technology absorption and upgradation.

6.3 All major enterprises should periodically do an asessment of world status and trends of their respective technologies. Further, they should have technology adaptation and development programmes explicitly indicated, budgeted and approved by the Board of Directors. A component in the investment proposals towards application and absorption of

technology may by allowed as an element of grant from the Government to the enterprises.

VII
FINANCIAL VIABILITY OF LOSS MAKING UNITS: CAPITAL RESTRUCTURING AND CLOSURE

A. CAPITAL RESTRUCTURING

7.1 In this section, only one aspects of the problems of loss making units is taken up. At present, apart from investment approvals, other proposals for capital re-structuring, or moratorium on interest or lone repayments, subsidies for cash losses, etc., are also subject to prior approval by Government. Loss making enterprises are a burden on the public exchequer, and therefore, they cannot expect the same degree of antonomy as financially viable units. In fact, it would often be necessary to have a tighter Government scrutiny of not only investment and other financial decisions but also many of the operations of such enterprises.

7.2 Normally, commercial enterprises can face a year or two of losses; but if they are basically sound, they should have the capacity to tide over such difficult periods. What we are concerned with is enterprises which are unable to cover even their actual cash expenses and show a cash loss for several years in a row. In many of these cases, the problem has become worse as cash losses for long periods of time continue to be financed by itterest bearing non-plan loans. An analysis of the operating results of public enterprises producing and selling goods and which have deficits showed that in 1980-81, the interest to turn-over ratio in respect of 30 enterprises was over 20 per cent. In 1981-82, the corresponding number was 27 and in 1982-83, it was 20. The reduction in the number of companies with an interest burden of over 20 per cent is more due to grant of interest holidays. interest waiver, etc. As against this, the interest burden turn-over ratio for all industries was 4.82 per cent according to the ASI data for 1979-80.

7.3 It is recommended that Government may not take a rigid position in its approach to the capital structure of such enterprises. While it would be difficult to re-structure capital automatically without taking into account its effect on its operation, it is suggested that where a company suffered cash losses for a number of years, the Government should consider such cases for capital restructuring. It is, therefore, recommended that the Bureau of Public Enterprises could initiate a *suo moto* examination of the *pros* and *cons* of capital re-stucturing of a number of such loss-making companies and make appropriate recommendations for converting debt into equity or writing down of capital as appropriate.

B. CLOSURE

7.4. There are many public enterprises incurring cash losses continuously over a period of years and in many of these cases the average value added per employee per month is even less than the average monthly emoluments per employee. Whatever steps are taken such enterprises can seldom breakeven or make good. Such enterprises, particularly when they are not in the core sector, could hardly justify their existence by eating into the Government resources.

7.5 It is therefore, considered that the Bureau of Public Enterprises should *suo moto* take up special studies of the operations of such enterprises if need be, with the help of consultants. The general criteria for taking up such examination would be as below:

(*a*) Such units should have incurred cash losses over a continuous period of not less than 5 years;

(*b*) Value added per employee per month should be less than the average monthly emoluments per employee; and

(*c*) Equity capital should have been wiped out by mounting deficits.

7.6 If such a study of the BPE reveals that capital re-structuring would help the enterprise in avoiding the cash losses, the same can be undertaken. It should also be examined if modernisation would help the unit get out of its present situation. If the present position is due to any peculiatiry in the pricing of the company's products, remedial measures should be suggested.

7.7 These comprehensive reports should then be brought before PIB. In PIB, both the Secretary of the Administrative Ministry as well as the Chief Executive of the public enterprise can represent their points of view should they contend that the enterprise should not be closed down. Taking into account all facts of the cases, including the cost of the closure of the unit, the PIB would make suitable recommendations to the Cabinet regarding the closure of enterprise or any constituent units thereof.

7.8 No specific proposal from a loss making unit will be considered unless the above exercise has been undertaken by the Bureau of Public Enterprises and a suitable package of measures considered and approved by the Government. In cases where healthy public enterprises are willing to voluntarily take over a sick public enterprise, such take over must be encouneraged by a suitable package of measures in favour of the volunteering public enterprise. The present Government procedures for such take-overs may be smoothened out for this purpose.

7.9 Once closure is recommended, a scheme should be devised for liberal retrenchment compensation to the workers concerned. The compensation should be on liberal terms so that a substantial portion of their wages could be earned by them by investment of the capital sum, which would include their normal provident fund dues, gratuity, retrenchment compensation etc.

7.10 Such compensation schemes could equally apply in the case of units which are viable but have sizeable surplus labour. In these cases the managements can come up to the Government with suitable proposals. This would in many cases prevent companies becoming sick over time.

7.11 Many loss making units in the public sector are those taken over from the private sector as sick units. It would be difficult to resist the social pressures for take-over of such units in future. However, such take over should be considered onlf if the sub-

stantial number of workers, say; more than 2000 are affected. Even in such a case, a like procedure as for closure should be followed. The Bureau of Public Enterprises would study all aspects of the operation of the concerned unit and bring up the matter before PIB. After considering these aspects, PIB may make suitable recommendations to the Government including, in exceptional cases, payment of suitable grant to the State Government to meet the expenditure towards compensation of retrenched workers where it is felt this would be advisable.

7.12 In the light of the above proposals where retrenchment of workers consequent upon closure or being rendered surplus becomes essential, it would necessary to devise a method by which such retrenchment compensation can be financed through the creation of a fund to which contributions could be made both by employers and employees. The Government can also contribute to such a fund. Alternatively, an insurance scheme could also be explored to cover the contingency against retrenchment. These schemes should cover workers of all factories with a strength of over 500. The Committee recommends that an Expert Group consisting of representatives of the Labour Ministry, General Insurance Corporation, the Bureau of Public Enterprises, etc., be set up to consider the feasibility of evolving a suitable scheme.

VIII
PRICING IN PUBLIC ENTERPRISES

8.1 Some of the public enterprises operate under a regime of administered prices as in the cases of Coal and Oil Sectors. In some, like Steel, even though statutory price control is not applicable price increases generally require the approval of the Government in view of the impact such increases would have on the economy as a whole. In certain areas like Fertilizer and Cement where public enterprises operate along with the private enterprises the scheme of retention price operates.

8.2 In the last few years, there has been considerable improvement in the pricing policy adopted by the Government in respect of public enterprises. By and large, prices have been fixed at levels which take into account costs at normative levels of efficiency. However, occasionally there have been delays in revising prices in line with increases in costs, which have tended to erode profitability in certain crucial sectors. It is important to ensure that where a public enterprise functions under the administered or retention price regime, the periodicity of revision of such administered/retention price is reasonable so that the profitability of the enterprise is not affected because of the rise in input cost. Where price-fixation is dependent on the recommendation of the bodies like the Bureau of Industrial Costs and Prices (BICP), decision on the same should be taken within a resonable time or an additional element in price must be added to allow for the delays.

8.3 The Committee also believes that price control by the Government should be retained only in areas where the nature of the product justifies such control, and not because a particular product happens to be produced by public enterprises. The areas where public sector is operating in competition with private enterprise and where there is no price control on the latter, the public enterprise should also be left free to fix prices of their products purely on the basis of commercial considerations. Unless the public sector share of the market is such that the concerned public public is the price leader, there is no point in the public sector alone charging a price lower than those of other producers. In areas, where prices are uncontrolled, as a rule, the Government should avoid getting involved in formally or informally approving of fixing prices.

8.4 The Committee also believes that in fixing prices, the Government should explicitly take into account the need to provide incentives for improvement in efficiency as well as for replacement of equipment. In our price policy, there are instances where an increase in operating efficiency leads to reduction in price granted to the enterprise, while a deterioration in efficiency automatically leads to an increase in the price. In such a situation, there is no incentive at all for controlling wasteful expenditure or to improve efficiency in energy use, etc. The Committee would recommend that henceforth BICP should be explicitly asked to take this aspect into account in making its proposals for a revision in prices.

8.5 A number of public enterprises are operating under monopoly conditions. In respect of such enterprises, it is important to ensure that prices fixed by them or by the Government are not arbitrary and do not hide cost inefficiency or economic unviability of the enterprise. For such enterprises, a measure of Government surveillance is necessary as their pricing behaviour can have an economy-wide impact. It also has to be recognised that our tariffs are generally high, and the combined effect of a monopoly operating under high tariffs walls can be to artificially increase our prices and perpetuate operational inefficiency and technological backwardness. The Committee suggests that in fixing prices of such items, particularly intermediates, specific attention should be paid to ensure international competitiveness and reducing costs. Tariffs, and landed costs, should not be used as a guide to fair domestic prices.

PRICE PREFERENCE

8.6 The Committee considered the existing price preference system where a 10 per cent pricepreference is being given to public enterprises *vis-a-vis* the private sector, this being 15 per cent where imports are involved. While there are valid reasons for extending price preference to public enterprises, it has to be recognised that the gain of the seller is a cost to the purchaser. To the extent that capital costs and raw material costs are increased because of price preference, the competitiveness and profitability of the buying public sector enterprise is eroded. After careful consideration of the issues involved, the Committee recommends that such price preference should be phased out over a period of 4 or 5 years (except where imports are involved). The elimination of price preference may cause problems for certain

public enterprises whose costs are high because of various historical reasons. In such cases the Committee recommends that an explicit subsidy, upto 10 per cent, of the tender price may be given by the Government for a period of time. For the Government as a whole, the replacement of the system of price preference by subsidies, will not have any overall financial impact as the cost of subsidy will be off-set by reducion in capital costs or operating costs of the enterprise that purchases there products.

IX
OTHER ISSUES

9.1 Apart from investment and personnel policy there are certain other types of decisions which presently require the prior approval of the Government. Our suggestions on these are as below:

A. AWARD OF CONTRACTS

9.2 An important area of interaction between the public enterprises and the Government relates to award of contracts. In general these are within the powers of the Board of Directors for any approved scheme. However, contracts involving an expenditure of more than Rs. 2 crores in foreign exchange are submitted to the Government for approval. We would suggest that this procedure be reviewed specially when the contract is against an approved scheme with necessary foreign exchange allocation. The enterprise should process such cases directly, without the intervention of the Administrative Ministry or the Finance Ministry, through the relevant organisation which will handle similar cases from the private sector like the Capital Goods Committee, the Foreign Investment Board, the Reserve Bank of India, Chief Controller of Imports and Exports, etc. As a general rule the enterprises should be totaly autonomous with regard to floatation of tenders, negotiations and contracts provided they operate within the framework of approved schemes, capital budgets, foreign exchange allocations and the existing regulatory framework which apply to the public and the private sectors equally. Even though on paper the enterprises do enjoy complete autonomy in these areas, in practice, however, interference from the Ministry of Department of the Government does take place. We suggest that suitable convention be evolved to ensure that such interference are avoided.

B. EXPENDITURE ON TOWNSHIP AND RESIDENTIAL QUARTERS

9.3 There are certain restrictions on the power of the Boards to spend money on construction or acquisition of residential accommodation and on townships. We would suggest that in this matter instead of case by case approval, BPE should draw up guidelines on percentage of employees to be covered, housing norm, nature of facilities to be provided in townships and residential colonies, broad norms for construction standards, etc Enterprises which operate within the framework of these guidelines should be free to take decisions on capital and revenue expenditure without prior approval by Government. The capital expenditure would of course be subject to the limits of delegated powers for investment approvals in general and to the constraint of the approved capital budget.

C. BPE GUIDELINES

9.4 At present some of the BPE's instructions are issued on the basis of recommendations of COPU which have been accepted by the Government. Sometimes when Notes on Performance of Public Enterprises are put up to the Cabinet Committee on Economic affairs, or the Cabinet, certain directives are issued by these bodies. These are, in turn, issued as instructions by BPE. These will continue and observance of such instructions would be mandatory for public enterprises. Another set of guidelines issued by BPE relates to norms and standards in various areas of operation and the Committee suggests that these may be reviewed by BPE. Sometimes Government issues economy instructions like ban on recruitment and filling up of posts, reduction in advertisement expenses etc. These are at present being applied to public enterprises also. Having regard to the fact that requirements of public enterprises are not identical with those of the Ministries or the Departments of Government, it is considered that a more practical view should be taken in this matter. The Committee would, therefore, recommend that the Government may not *ipso facto* make all economy instructions applicable to the public enterprises.

9.5 At present no Accounting Policies or standards have been evolved for public enterprises. We would suggest a Group, consisting of the representative of C&AG, professionals in the field including public enterprises and BPE, should be formed to evolve these without further delay.

9.6 At present, creation of new companies, merger or closures requires prior Government approval. Similarly powers for the processing of Memorandum or Articles of Association and amendment thereto are vested with the Government. The Committee is of the view that these areas of controls could be retained by the Government.

X
SUMMARY OF RECOMMENDATIONS

PUBLIC ENTERPRISES AND NATIONAL PLANNING

10.1 Careful dovetailing of all plans of public enterprises with the National Plan is required only in a few core sectors as below:

Coal and lignite
Crude oil, petroleum and natural gas
Power
Primary steel production
Primary production of aluminium, copper, lead, zinc and nickel.
Fertilizers
Primary production of petrochemical intermediates (Para 2.3)

10.2 The plans of enterprises in the non-core sector are to be integrated with the National Plan.

only in an indicative manner as for private sector units. (Para 2.4)

10.3 It is necessary to evolve a set of rules and conventions by which the Government can help in the better performance of Public Enterprises by reducing points of intervention without minimising the Government's right to have needed information for evaluating performance. The Government should be primarily concerned with overall strategic planning and policy, rather than with day-to-day functioning of public enterprises. (Paras 3.8 & 3.10)

ORGANISATIONAL STRUCTURE OF PUBLIC ENTERPRISES

10.4 It is recommended that the Holding Company structure provides a reasonable framework of organisational structure for public enterprises. This structure would combine the objectives of centralised policy formulation with decentralised operation and management. Where Holding Companies cannot be formed, the existing unitary companies can be reorganised into Apex Companies with a Board of Directors at the Apex level and Divisions or Units under them as profit or cost centres with Local Management Committees and adequate delegation of powers from the Apex Board. (Para 3.14)

10.5 It is recommended that the Government should have dealings only with the Boards of the Holding or Apex Companies and not with subsidiary companies or Divisions. (Para 3.15)

10.6 The Board of Holding Company or the Apex Company would coordinate the activities of the subsidiaries or the Divisions in the areas of employment, wages, financial and pricing policies. The subsidiaries or the Divisions would be delegated all authority needed for fulfilment of targets and operational efficiency. (Para 3.16)

10.7 Performance Evaluation of the Holding Company or the Apex Company will be done by the Government in terms of a few agreed criteria. (Para 3.18)

10.8 The Committee recommends that the institution of Government Directors should continue but the appointment of Government Directors should be restricted only to the Board of the Holding Campany. The Government should ensure that officials nominated as Government Directors should have had adequate expertise of public enterprises; otherwise, such officials, before being nominated to the Board, should be given an orientation of sufficient period in one or more public enterprises under the charge of the Administrative Ministry. (Para 3.19)

10.9 It is recommended that the public enterprises in the core sectors should all be reorganised into Holding Companies under the administrative control of the concerned sectoral Ministries and such Holding Companies should also include supplies of major inputs, machinery and equipment manufacturers and related consultancy organisations. In case where a single sectoral Holding Company becomes too large, it may be necessary to set up more than one such Holding Company. (Para 3.20)

10.10 The Government's involvement with the Holding Company in the core sector would only be limited to:

( ) appointment of the Chief Executive an other members of the Board of Directors;
(i) investment financing and project appraisal;
(ii) target setting, budget, performance evaluation; and
(iv) broad policy guidelines. (Para 3.21)

10.11 It is recommended that the Chief Executive would assist the Minister in discharging his responsibility to the Parliament and the Secretary of the Administrative Ministry would not be concerned with these matters. (Para 3.22)

10.12 The Holding Company in the core sector would specify its plans for investment, production, capacity utilisation, profits, dividend, etc,, for a period of five years and arrive at a Memorandum of Understanding with the Government on mutually agreed basis. There would be an annual review of performance based on this Memorandum of Understanding. (Para 3.23)

10.13 Various public enterprises in the non-core sectors should be reorganised into a few Holding Companies and Apex Companies depending on the nature of the product, location and other linkages. These Holding Companies or Apex Companies should continue to be under the sectoral Ministeries which would retain the administrative supervision over the companies including appointment of Chief Excutives and Members of the Board of Directors and evaluate their performance according to some well defined norms and criteria. (Para 3.24)

10.14 The Committee suggests that the promotions should be set up as Autonomous Boards or as registered societies rather than as companies. (Para 3.25)

10.15 The taken-over units from the private sector should be reorganised into larger companies under the appropriate sectoral Ministries. (Para 3.26)

10.16 The Committee recommends that a Working Group should go into the details of the following:

(i) formation of Holding Companies and Apex Companies under the sectoral Ministries from among the sectoral public enterprises;
(ii) transfer of existing public enterprises or any of their constituent units of appropriate sectoral Ministry;
(ii) merger of existing public enterprises into smaller number of companies by appropriate regrouping; and
(iv) based on the re-organised Holding and Apex Companies suggest, where necessary transfer of certain subjects for nodal responsibility from one Ministry or Department to another. (Para 3.27)

AUTONOMY OF PUBLIC ENTERPRISES

A. Investment Approvals & Capital Budget

10.17 In the case of core sector enterprises, the existing system of fully integrating their plans with the total public sector plan and the present system of investment approvals must continue since in most cases the public enterprises plans are co-terminus with the national sectoral plans. To the extent the publ c sector enterprises in the non-core sectors can

finance their investment requirements by raising funds from the public through deposits or debentures or by borrowing from the financial institutions, they need not be subjected to any process of governmental clearance and the public sector plan should include only the flows through the budget. (Paras 4.5 & 4.6)

10.18 For the core sector, investment approvals by Government should be built around two-stage clearance. In the first stage, besides conveying approval in principle, and sanctioning preliminary expenditure, a 'Task force' should be set up by PIB to go into all aspects relating to indigenous availability of equipment, capability of manufacture by public enterprises, need for import and quantum of imports. In the second stage, detailed scrutiny regarding technology, costs, etc., should take place. Based on the report of the 'task force' on indigenous availability of equipment the need for import, quantum of import, foreign exchange requirements, price preference, etc. should be finalised by PIB. (Paras 4.7 & 4.8)

10.19 Single window clearance by PIB is recommended in the second stage, including approvals for financing packages, external credits, collaboration agreements, capital goods imports, location and environmental aspects etc. (Para 4.9)

10.20 It is recommended that the present limits for investment approval by the EFC and PIB be enhanced as below:

(i) EFC — Investment proposals costing over Rs. 5 crores but not above Rs. 25 crores.

(ii) PIB — Investment proposals costing over Rs. 25 crores.

Corresponding changes must be made in the delegated powers of the Public Enterprises. (Para 4.10)

10.21 Project Appraisal Division of the Planning Commission should be nodal agency for submitting a comprehensive appraisal report for consideration of EFC and PIB. PAD should be suitably strengthened for effective discharge of this additional responsibility. Investment proposals may be sent to PAD and Administrative Ministry simultaneously, by Public Enterprises after approval by their Boards. (Paras 4.11 & 4.12)

10.22 For financially viable enterprises in the non-core sector Government would contribute only towards equity. Investment approvals for equity participation in such cases would be dependent on the enterprise meeting the performance criteria and payments of dividend at the prescribed rates. The remaining requirements for project investment should be raised outside the budget through borrowing or non-convertible debentures but without Government guarantee. (Paras 4.13 & 4.17)

10.23 Where non-core enterprises are used as agencies for other than commercial objectives, either Government should undertake additional equity contribution or the additional net cost of such activities should be reimbursed. (Para 4.14)

10.24 Since selling of shares may create problems of ownership without giving the Public Sector enterprise any greater advantages the Committee does not recommend selling of shares to the public enterprises. (Para 4.16)

B. Wage Policy in Public Enterprises

10.25 It is recommended that basic wage structure of employees of public enterprises should be determined on industry basis or industry-cum-region basis by a wage Commission or through the mechanism of industry-wise Wage Boards for a period of 5 years. (Para 4.26)

10.26 In addition to the basic wage there should be a component of earning linked with productivity. The total amount involved may be determined by the enterprise in consultation with the Government on the basis of profits earned or substantial reduction achieved in losses. Within the broad guidelines indicated by the Government the Board of Directors of an enterprise would have full authority to devise a scheme in consultation with the workers. Thus, the main portion of increase in wage would be linked with productivity. Existing bonus scheme would continue and no change in procedure is recommended. (Paras 4.27 & 4.28)

C. Executive Appointments and Remuneration

10.27 It is recommended that Chief Executives and Functional Directors of Public Enterprises should be given a tenure of five years subject to a probationary period of one year and removal at three months' notice for unsatisfactory performance. (Para 4.31)

10.28 It is recommended that proposal for removal of Chief Executive or Functional Director should be put up to the Appointments Committee of the Cabinet with the view of the Public Enterprises Selection Board. (Para 4.34)

10.29 Part-time Directors of public enterprises should be appointed after consulting the respective Chief Executives. Non-official Directors should have a tenure of three years. Vacancies on the Boards should not be left unfilled for a long time. (Para 4.32)

10.30 It is recommended that filling up of all posts other than those of Chief Executives & Functional Directors should be left to the Boards of Directors. (Para 4.34)

10.31 It is recommended that there should be flexibility for giving a higher scale of pay to the Chief Executive or the Functional Director of a sick unit, on a personal basis. (Para 4.35)

10.32 There is a strong case for narrowing the gap in the remuneration of Chief Executives and Functional Directors as between the Public and Private Sector enterprises. It is recommended that a Working Group be set up, at an appropriate time after the receipt of the Fourth Pay Commission's recommendations to specify scales and perquisites of Chief Executives and Functional Directors. The present rental ceilings for Chief Executives, Functional Directors and Executive Directors also needs revision. The same Working Group may look into this also. (Paras 4.36 & 4.37)

10.33 Disciplinary proceedings against Board-level appointees would be the responsibility of the Government. In respect of all others, the Board of Directors would have the final authority. (Para 4.38)

10.34 It is recommended that performance of a

Chief Executive of the enterprise, evaluated according to agreed parameters, should form his performance record for the year. In the case of Functional Directors, no review of the Confidential Report by the Ministry is necessary. (Para 4.39)

10.35 Every enterprise must submit to its Board of Directors, each year, a manpower budget and training plans for executives and others. (Para 4.40)

10.36 It is recommended that mobility of management personnel between Public Enterprises should not be discouraged. (Para 4.41)

ACCOUNTABILITY OF ENTERPRISES

A. *Performance Evaluation*

10.37 On the basis of agreed plans for investments, production, capacity utilization, profits, dividends etc., for a period of five years, the Government in the Administrative Ministry and the Holding Company or Apex Company, as the case may be, would enter into a Memorandum of Understanding. According to this certain obligations would also be cast on the Government in terms of provision of equity, price level etc. This Memorandum would be reviewed each year and updated. The performance of the Holding Company or Apex Company as the case may be, would be reviewed and evaluated on this basis making due allowance for the failure, or otherwise, of the Ministry or Department to fulfil its part of the Understanding. (Paras 3.23 & 5.3)

FINANCIAL PERFORMANCE

10.38 It is recommended that for evaluating financial performance of public enterprises, the following criteria should be used:

(*i*) Gross margin on assets (for all enterprises).
(*ii*) Net profit on net worth (for core sector and profit-making enterprises).
(*iii*) Gross Margin on Sales (Service enterprises). (Para 5.5)

10.39 In respect of core sector enterprises, the rate of net profit should be atleast a stipulated per cent and gross margin on capital should be improving over time. (Para 5.7)

10.40 In the non-core sector, enterprises should be judged against the industry average for both gross margin on capital employed and the rate of net profit. (Para 5.8)

10.41 In evaluating the performance of Service Enterprises, attention should be focussed on direction of change in the gross margin on sales. (Para 5.9)

10.42 In loss-making enterprises, gross margin should be positive. In addition, the following to be monitored:

(*a*) Ratio of loan liabilties to assets.
(*b*) Ratio of wages to value added per worker.
(*c*) Cash loss per worker. (Para 5.10)

Productivity and Cost Reduction

10.43. In the core sector enterprises, monitoring unit cost and productivity should be undertaken by examining the direction of change in indicators like capacity utilisation and raw materials costs (at constant prices). Wherever possible, an overall index of cost of production should be evolved for monitoring changes in costs and productivity. In Service Enterprises, productivity can be monitored by the direction of change in the utilisation of fixed assets, number of days of inventory and manpower per unit of turnover. (Para 5.11)

Technical Dynamism

10.44. It is recommended that attempts should be made to evolve technology development indices even on a rough basis. (Para 5.12)

Project Implementation

10.45. It is recommended that the following indices should be monitored for project implementation in the core sector:

(a) Percentage utilisation of plan funds.
(b) Average slippage in ongoing projects, the weights for the average being defined by the cost of each project.
(c) Percentage cost revision for the approved investment programme relative to the previous year. (Para 5.13)

10.46. A group constituted by Administrative Ministry with representatives from the Ministry, Bureau of Public Enterprises and the Planning Commission should prepare an annual Performance Evaluation Report based on these performance indicators for each enterprise and submit it to the Planning Commission for arriving at the investment decisions and PESB for appointment, promotion, confirmation or extension of top management. (Para 5.15)

10.47. Detailed monitoring of subsidiaries and divisions should be carried out by the Holding or Apex Company. (Para 5.17)

10.48. A working Group may be set up to evolve appropriate information system based on the above performance evaluation criteria. (Para 5.17)

B. *Audit : Roll of the Comptroller and Auditor General*

10.49. It is recommended that accounting policies and accounting standars should be evolved for public enterprises with the help of C&AG, professionals in the field and BPE. Thereafter supplementary audit of C&AG may not be considered necessary for profitable, non-core enterprises. Amendment to Companies Act would be necessary for this. However, the periodical performance audit of Public Enterprises conducted by C&AG would be continued. (Para 5.19 & 5.22)

10.50. For large companies, especially in the core sector, supplementary audit of C&AG may continue; if necessary, provision can be made only for audit by C&AG. (Para 5.23)

C. *Relations with Parliament*

10.51. It is submitted that

(i) Parliament questions on day-to-day operation and management of public entesprises may be avoided.
(ii) COPU can examine and probe the working of public enterprises in depth and in direct contact with the management of the public enterprises.
(iii) Debates on the Demands for Grants of the Administrative Ministries or Departments, tabling of Annual Reports, and Annual accounts of public enterprises and tabling of Public Enterprises Survey in both Houses of Parliament may be used as occasions for discussing the performance individuals public enterprises as well as the performance of public enterprises as a whole. (Para 5.26)

TECHNOLOGY UPGRADATION

10.52. The transfer of know-how of imported processes and designs should take into account availability of product design, product engineering and production engineering groups of high calibre. This is essential for effective transfer of 'Know-Why' from a collaborator. Where monopoly producers are catering to the needs of monopoly users, the selection of technology, product size and product design by import should be decided upon jointly by them. (Para 6.1)

10.53. It is recommended that appropriate mechanism should be adopted to ensure prompt absorption and improvement of imported technology, through association of the R&D personnel from the very beginning. Adequate investment in R&D should be made in the enterprise to facilitate technology absorption and upgradation. (Para 6.2)

10.54. All major projects should include technology adaptation programmes and for this purpose the Government should consider providing part of this expenditure as grant. (Para 6.3)

FINANCIAL VIABILITY OF LOSS MAKING UNITS

A. *Capital Restructuring*

10.55. It is recommended that where a company has suffered cash losses for a number of years, after excluding the interest burden, Bureau of Public Enterprises should examine

cases, *suo moto*, for capital restructuring. (Para 7.3)

losure

10.56. BPE should undertake special studies of the operations of public enterprises incurring cash losses which fulfil the following criterio.

(a) Units should have incurred cash losses over a continuous period of not less than five years.
(b) Value added per employee per month should be less than the average monthly emoluments per employee.
(c) Equity capital should have been wiped out by mounting deficits.

BPE would, thereafter, submit a comprehensive report to PIB which would then make suitable recommendations to the Cabinet of reviving or closure of the Unit. (Paras 7.5 to 7.7).

10.57 Proposals for investment by loss making units should not be considered without BPE having undertaken the exercise indicated in para 10.53. (Para 7.8)

10.58 Where healthy public enterprises are willing to voluntarily take over sick public enterprises, suitable package of measures in favour of volunteering public enterprises would be considered and Government procedures for such take-overs or mergers should be simplified. (Para 7.8)

10.59 Where closure is recommended, a liberal compensation scheme for the workers should be evolved. It is recommended that a suitable fund or an insurance scheme be evolved for financing expenditure on compensation to retrenched workers. An Expert Group of representatives of the Labour Ministry, General Insurance Corporation, BPE etc, should be set up for this purpose. (Paras 7.9 & 7.12)

10.60 Where taking over, a sick private sector unit is mooted, a study similar to the one in respect of closure of sick units should be undertaken by BPE and a comprehensive report brought before PIB which may make suitable recommendations to the Government. (Para 7.11)

PRICING IN PUBLIC SECTOR

10.61 Where public enterprises are functioning under price controls, it is recommended that the periodicity of revision should be resonable. Government's decision on the recommendations of bodies like BICP on price fixation should be taken within a reasonable time or an additional element in price should be added to allow for the delays. (Para 8.2)

10.62 It is recommended that:

(i) Price control must be retained only in areas where the nature of product justifies;
(ii) Where public enterprises operate in competition with the private sector, the former should be left free to fix prices on commercial considerations; and
(iii) In areas, where prices are uncontrolled, Government should not get involved, formally or informally, in approving or fixing prices. (Para 8.3)

10.63 It is recommended that BICP should be explicitly asked to take into account the need to provide incentives for improvement in efficiency and for replacement of equipment, while fixing prices. (Para 8.4)

10.64 It is recommended that in fixing prices of products of public enterprises operating under monopoly conditions, particularly intermediates, attention should be paid to ensure international competitiveness and reducing costs. (Para 8.5)

PRICE PREFERENCE

10.65 It is recommended that price preference to public enterprises should be phased out over a period of 4 or 5 years. If necessary, Government may give subsidies to such units. (Para 8.6)

OTHER ISSUES

Award of Contracts

10.66 It is recommended that Ministries or Departments of the Government shall not interfere in areas of decision-making which are well within the delegated powers of the public enterprises. It is recommended that public enterprises should process their cases directly through Capital Goods Committee, Foreign Investment Board. RBI, CCI & E, etc, as done by private enterprises. (Para 9.2)

Expenditure on Township and Residential Quarters

10.67 Within the frawemork of BPE's guidelines public sector enterprises should be free to invest on township and residential accomodation without prior approval of the Government within the limits of delegated powers subject to the constraints of the approved capital budget. (Para 9.3)

BPE Guideline

10.68 It is recommended that BPE guidelines on norms and standards in various areas of operation may be reviewed. BPE's instructions based on recommendations of COPU accepted by the Government, decisions of the Cabinet and its committees, etc are mandatory for all public enterprises. It is also recommended that in the case of public enterprises, generally, economy instructions for filling up of posts, stoppage of advertisements, etc, may not be applied *ipso facto*. (Para 9.4)

10.69 It is recommended that a Group consisting of the representative of C & AG, professionals in the field including public enterprises and BPE should evolve accounting policies and standards for the public enterprises. (Para 9.5)

ANNEXURE

LIST OF PERSONS MET BY THE COMMITTEE

1. Shri K.V. Ramanathan, Secretary, Planning Commission.
2. P.K. Kaul, Finance Secretary.
3. Shri P.K. Basu, Secretary, Department of Steel.
4. Shri S. Venkitaramanan, Secretary, Department of Power.
5. Shri A.S. Gill, Secretary, Department of Petroleum.
6. Shri Harbans Singh, Secretary, Department of Textiles.
7. Shri S.B. Lal, Secretary, Department of Coal.
8. Shri Mohinder Singh, Secretary, Department of Mines.
9. Shri S.R. Vijayakar, Secretary, Department of Electronics.
10. Shri B.B. Singh, Secretary, Ministry of Chemicals and Fertilisers.
11. Shri R.P. Billimoria, Chairman, Public Enterprises Selection Board.
12. Shri Prakash Tandon, President, National Council of Applied Economic Research.
13. Shri Mantosh Sondhi, Formerly, Secretary (Heavy Industry).
14. Shri K.C. Khanna, Formerly, Chairman SAIL.
15. Shri Lovraj Kumar, Consultant, Advisory Board on Energy.
16. Shri T.L. Sankar, Director, Institute of Public Enterprises, Hyderabad.
17. Shri K.L. Puri, Chairman. SCOPE.
18. Col. S.P. Wahi, Chairman, Oil & Naturul Gas Commission.
19. Shri S. Samarapungavan, Chairman, Steel Authority of India Ltd.
20. A.J.A. Tauro, Chairman, Indian Oil Corporation.
21. Shri M.S. Gujral, CMD, Coal India Limited.
22. Shri S.R. Jain, CMD, Heavy Engineering Corporation Ltd.
23. Shri G.L. Tandon, CMD, Neyveli Lignite Corporation Ltd.
24. Shri P.C. Luther, CMD, State Trading Corporation of India Ltd.
25. Shri A.H. Mehta, Chairman, National Textile Corporation Ltd.
26. Dr H.P. Bhattacharya, Managing Director, National Textile Corporation Ltd.
27. Shri K.S.B. Sanyal, CMD, Andrew Yule & Co Ltd.
28. Shri S.R. Choudhury, CMD, Jessop & Co Ltd.
29. Shri S. Krishnaswamy, Braithwaite & Co Ltd.
30. Shri A.P. Bhalla, CMD, IBP Co Ltd.
31. Vice Admiral R.K.S. Gandhi, CMD, Shipping Corporation of India, Ltd.
32. Shri A.P. Bhalla, Chairman, Balmer Lawrie & Co Ltd.
33. Shri P.C. Sen, CMD, Burn Standard Co Ltd.
34. Shri S.R. Chounhury, Chairman, Lagan Jute Machinery Co Ltd.
35. Shri A.K. Johri, CMD, Bharat Wagon & Engineering, Co Ltd.
36. Dr M.K. Pandhe, Secretary, CITU.
37. Shri Raja Kulkarni, Member, INTUC Working Committee.
38. Shri Raj Kishan Bhakt, Bhartiya Mazdoor Sangh.
39. Shri S.S. Sonwalkar, Secretary-General, National Confederation of Officers' Associations of Central Public Undertakings.□