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ADMINISTRATIVE REFORMS COMMISSION

REPORT
OF THE STUDY TEAM
ON
PUBLIC
SECTOR
UNDERTAKINGS

JUNE 1967

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STUDY TEAM ON PUBLIC SECTOR UNDERTAKINGS

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LETTER OF TRANSMITTAL

RAVINDRA VARMA,
CHAIRMAN,
Study Team on Public
Sector Undertakings.

NEW DELHI,

Dated the 10th June, 1967

My dear Shri Hanumanthaiya,

I have the honour to submit the Report of the Study Team on Public Sector Undertakings.

2. The Study Team was appointed on the 20th of May, 1966, and asked to "ascertain facts, locate the principal problem areas, examine solutions for the problems and suggest such of them as they would recommend for the Commission's consideration."

3. Our Study Team has been keenly conscious of the importance of this enquiry. Public enterprises have acquired a position of unique importance in our country. They function in vital areas of the economy. The Exchequer has invested millions of rupees in these undertakings. There are very high expectations from them. The success of these undertakings is crucial for the economic development of our country. They have to attain and retain high standards of economic efficiency, build the infra-structure of modern industry, achieve the ability to generate re-investible resources and fulfil the social and developmental objectives that warrant investment in the public sector.

4. Public enterprises, in one form or another, now exist in almost all countries in the world. They exist in countries that believe in a 'planned economy' as well as in countries that believe in a 'free economy'. They function in countries with differing political systems and ideologies. There is hardly any argument today about the need for public enterprises. Their role in a developing economy is now accepted in all quarters. The debate today is not on whether

public money should be invested in utilities or industrial and commercial enterprises, but on the area of the economy that public enterprises should cover: the economic and social obligations of public undertakings, the forms of organization that are best suited to such undertakings, and the degree of control that should be exercised by Parliament and Government to ensure accountability without stifling initiative or violating the canons of sound business management. The demarcation of the area of public enterprises involves decisions on the desirability of extending or contracting the area. The formulation of the objectives of public undertakings depends on decisions on the social benefits that are expected to accrue from the investment. Both these are decisions of policy that the Parliament and Government should make. We did not think that our Study Team was expected to study and make recommendations on these matters of policy. We have, therefore, confined our present study to the other two main questions, —the forms of organization and the degree of control necessary for public accountability.

5. The administrative problems of public undertakings, especially in our country, arise from two main factors, the need to balance the demands of accountability with those of autonomy and the tendency to regard the procedures and methods of the administrative ministries of Government as the archetype of the administrative procedures that public undertakings should follow. To these must be added the problems that arise from the paucity of trained personnel, the dependence on 'deputation', the inadequacy of technical know-how and a number of other problems of management that we have referred to in our Report. We have attempted to identify these problems, indicate their nature and consequences, examine possible solutions and recommend the reforms that we thought were essential. We have thus made recommendations on the form and structure of public enterprises as well as the measures that can ensure better management, increased economic efficiency, clearer accountability and appraisal, definitive autonomy and greater ability to fulfil the social and economic obligations that Parliament may prescribe for these undertakings from time to time.

6. We are conscious of the fact that the vastness of the area of our study and the shortness of the time at our disposal might have resulted in our inability to deal exhaustively with all aspects of the administration of public undertakings. But we can assure the Commission that we have made every effort to identify and deal with the major problems as we saw them.

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7. Our Report represents the results of our joint study and deliberations. It reflects the spirit of earnestness and objective study that characterized the working of our team. As Chairman, I owe a deep debt of gratitude to all the Members of the Study Team for the unstinted cooperation that they extended to me and for the exceedingly valuable and thought-provoking contributions that all of them made in the course of the deliberations.

8. The Team would also like to place on record its high appreciation of the contribution that Shri Naresh Chandra, the Secretary of the Study Team, has made to the success of our efforts. The thoroughness with which he marshalled the material that we needed, the excellence of the working papers that were prepared under his direction, the insight that characterized his contribution to our discussions and the devotion and efficiency with which he organized the work of the Secretariat of the Study Team are all responsible for our being able to complete the work so soon.

9. We will consider our efforts amply rewarded if the results of our study help the Commission to recommend reforms that will improve the efficiency of our public sector undertakings and enable them to fulfil the expectation that the Parliament and the people have of them.

Yours sincerely,

RAVINDRA VARMA

Shri K. Hanumanthaiya,
Chairman,
Administrative Reforms Commission,
Government of India,
New Delhi.

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CHAPTER I

INTRODUCTION

1.1 We were entrusted with the task of examining the working of public sector undertakings, locating the principal problem areas and suggesting solutions for the problems. The crucial importance of the public sector undertakings to the economic development of the country needs no emphasis. We have, therefore, been keenly aware of the heavy responsibility that the Administrative Reforms Commission placed on us.

1.2 By the end of the Third Five Year Plan there were 74 public undertakings which were wholly or partly owned by the Government of India. The banks owned by the Government and the departmental undertakings like the railways, posts and telegraphs, ordnance factories etc are not included in this number. Our Report does not cover these undertakings nor does it deal with the problems of the commissions and commodity and control boards set up by the Government. In fact, the area of public enterprise that we were asked to cover is very similar to that on which the Bureau of Public Enterprises reports to Parliament and consists mainly of the undertakings which are examined by the Parliamentary Committee on Public Undertakings. The total investment, comprising equity and long-term loans, in the 74 undertakings was of the order of Rs. 2,400 crores at the end of 1965-66. Of this the Central Government alone had invested about Rs. 2,300 crores; by January 1967, the total investment of the Central Government had increased to about Rs. 2,600 crores. In addition to these undertakings of the Central Government, the State Governments too set up a number of undertakings in the public sector. Their number steadily increased with every Plan. By the end of the Third Plan period the various State Governments owned or held majority shares in about 175 public undertakings, with an estimated total investment of the order of Rs. 2,000 crores.

1.3 The Industrial Policy Resolution of 1948 laid down that public enterprises, as a rule, should be organized in the form of public corporations. But most of these public enterprises of the Central Government as well as the State Governments were set up as Government companies under the Companies Act. Only six

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undertakings of the Central Government and the Electricity Boards and Road Transport Corporations etc of the State Governments can be cited as exceptions to this general pattern, since these alone were set up as statutory corporations. The growth of the Government companies in the last 10 years or so has been very rapid, the number increasing from 61 as at the end of the First Plan period to 214 as at the end of the Third Plan. During the same period the paid-up capital in Government companies rose from Rs. 66 crores to about Rs. 1,240 crores which is over three-fourths of the paid-up capital in all the non-Government companies put together. The capital invested in the statutory corporations is in addition. These figures bear eloquent testimony to the vital importance of the public sector undertakings in our economy today.

1.4 The public enterprises in our country cover a range of activities, that is at once vast and varied. They engage directly or indirectly in advancing loans; regulating trade; organizing promotional and developmental activities; manufacturing heavy machinery and machine tools, instruments, electrical equipment, chemicals, drugs and fertilisers; prospecting and drilling for oil and refining crude; operating air, sea and road transport; building and construction; generation and distribution of electricity; mining of coal and mineral ores; and smelting and casting of steel and other metals.

1.5 The large number of public undertakings and the variety of activities in which they engage make it impossible for one study team to undertake and complete within a reasonable period a thorough examination of the working of every individual undertaking. We have not therefore attempted to study the working and problems of every individual undertaking in the public sector. Nor did we consider it necessary to do so for the task that had been entrusted to us. The Parliamentary Committee on Public Undertakings since May 1964 and the Committee on Estimates before that, have undertaken such an examination in respect of quite a few public undertakings and have brought out reports which are extremely instructive. We ourselves have greatly benefited from our study of these reports and the informative analysis that they contain on the working of individual undertakings and the problems that the Government and the undertakings have had to face from the early stages of the planning and implementation of the projects. We have also looked into the working of some individual undertakings to acquire a closer acquaintance with their problems of structure, relationships and

operational efficiency. But the object of our examination has not been to catalogue the problems of individual undertakings, but to locate and identify the common problems that affect the efficiency and achievements of all the enterprises in the public sector, and to propose practicable solutions that have a fair measure of validity for all undertakings. We have, therefore, divided our work subject-wise and not undertaking-wise, taking up each subject and finding out the general picture prevailing in the public sector as a whole, the problems in each area and the steps that can be taken to meet them.

1.6 The Industrial Policy Resolution of 1948 laid down the preference of Government for the form of the public corporation. But in practice both the Central and the State Governments have shown a marked preference for the company form of organization. We, therefore, felt that the question of the most suitable form to be given to the different public undertakings needed further and fuller examination. It has sometimes been said that the form of organization of a public enterprise did not matter, and what mattered was the spirit in which it functioned. While there is a good deal of truth in this statement, we felt it would be an over-simplification to dismiss the problem in such summary terms. We have to seek and find a balance between the autonomy that these undertakings need and the accountability that should be enforced. We have, therefore, examined the suitability of different forms to the public undertakings in our country. We considered that this should, in fact, be the starting point of our Report.

1.7 The number of public enterprises in our country is increasing. Many of them are set up as separate and individual undertakings functioning in the same industry. Their size and separateness have led to a degree of fragmentation of the industrial effort in the public sector. Unlike in most other countries which have efficient public undertakings, there is no single autonomous authority in each industry charged with the development and functioning of the industry. In that sense, it may be said that we have no nationalized industry. We only have individual undertakings functioning in an area of industry reserved for the public sector. We have examined this situation in the third chapter of our Report and explored the possibility of a rational integration of the existing public undertakings. The multiplicity of these undertakings, the form of their organization and

the size of their operations, have an important bearing on the relationship between the Parliament and public enterprises and that between the Government and the public enterprises.

1.8 While determining what these relationships should be, the main consideration that has to be kept in view is the crucial need for striking the most beneficial balance between the requirement of public accountability that these undertakings should meet and the autonomy that they need to function on sound business and commercial principles. This is discussed in the next two chapters of this Report; one devoted to the relationship between Parliament and the public enterprise, and the other to that between the Government and the public enterprise. Issues like the submission of annual reports and accounts by the public undertakings to the Parliament as well as the organization required in the Government for the control and coordination of public undertakings have also been discussed in these chapters.

1.9 Once these basic organizational issues have been dealt with, the ground is prepared for taking up the more specific issues. We have taken up first the planning and construction of public sector projects although they apply mainly to the industrial concerns. The sixth and seventh chapters of this Report seek to analyse some of the serious lapses in the planning and construction of projects and the problems still being faced by the project authorities. In identifying the principal problems and suggesting solutions for them we have made full use of the various reports of the Parliamentary Committees as well as the studies conducted by the Committee on Plan Projects of the Planning Commission.

1.10 The next and the eighth chapter of the Report deals with the important subject of personnel. Scarcity of trained manpower in the country is a serious bottleneck in the way of achieving the desired rate of industrial development. It is a problem that is acutely felt by most undertakings. A systematic plan that would enable public undertakings to meet their personnel requirements is yet to be formulated and implemented. Such a plan will also have to enable undertakings to discover and train persons from within the enterprises to fill the senior-most management posts in the undertakings. We have given priority of consideration to this problem and have suggested a manpower scheme that will pave the way for a solution. Other important issues connected with personnel like the recruitment,

training, promotion and other service conditions of the employees of public undertakings as well as the subject of labour welfare and industrial relations are also discussed in this chapter.

1.11 If public enterprises are to function along sound commercial and business lines, it is essential that their management is equipped with the necessary expert organizations and their procedures of work conform to those prevailing in the more successful and modern enterprises in the private sector. We have given full weight to these considerations while discussing issues relating to the planning and construction of projects and the requirements of personnel management and industrial relations. The most important aspect of this question concerns the adequacy of the finance and accounts organizations and the development of an effective management information system in the public undertakings. It is of the utmost importance that public undertakings take immediate steps in this direction and set up well-staffed units for such functions as those of cost and management accounting and internal audit. The ninth chapter of our Report is devoted to this question. A separate section in this chapter deals with problems of materials management. The importance of better systems of materials management will be apparent from the burden of the avoidably heavy inventories that many public undertakings are carrying at present.

1.12 We have also touched upon some of the more important financial matters and methods that affect public undertakings. We have not discussed these subjects in detail since the Administrative Reforms Commission have constituted another Study Team on Budgetary Reforms, System of Expenditure Control etc., and we learn they are to examine and report on matters connected with this aspect of the administration of public undertakings. The tenth chapter, however, discusses the more important issues relating to the financing of public enterprises and outlines the need for a more precisely formulated financial framework that spells out the financial obligations of public undertakings with greater clarity.

1.13 The policy that public enterprises adopt for the pricing of their products is a question of basic importance. Unfortunately, there is an area of uncertainty surrounding the whole question of pricing. This is largely due to the fact that the financial obligations of public undertakings have not been laid down with clarity. While avoiding

unauthorised incursions into the sphere of policy, we have discussed the existing position in a separate section of the tenth chapter with a view to suggesting certain reforms which are immediately required.

1.14 The audit of the accounts of public enterprises poses another difficult question. Since the enterprises are financed from public funds, their accounts have to be subjected to audit. But the type of audit carried out in respect of the administrative departments of the Government is not at all conducive to the bold and enterprising management that these undertakings require if they are to serve the purpose for which they were created. We have discussed this question at some length in the eleventh chapter with a view to reducing the existing multiplicity of audit and making it liberal, flexible and more in tune with the special needs of the public enterprises.

1.15 The last substantive chapter of this Report, the twelfth, is devoted to issues relating to the appraisal of the performance of public undertakings. In the public sector there is no single test for judging efficiency as the test that profitability provides in the private sector. Very often, the public sector is vehemently criticised on the ground that it is yielding comparatively poor returns. Much of this criticism ignores the fact that profit cannot be the sole motive of public enterprises that are set up to engage in economic activity and at the same time to fulfil the social and non-commercial obligations laid on them. We have discussed this in detail and have set out the considerations that agencies undertaking appraisal, internal as well as external, should keep in view for a more accurate and purposeful appraisal of the performance of the management in the public sector.

1.16 In a work of this nature it is but natural, and even necessary, to concentrate on the shortcomings, the bottlenecks, the defects and the failures and problems of administration. It is equally natural that a number of specific instances of inadequacies and failures are cited to support the conclusions and recommendations that have been reached. But it would be totally wrong to infer from these instances that we have cited or the observations that we have made that we believe that the public undertakings in general have failed to deliver the goods. In fact, through the medium of public enterprise Government have been able to bridge serious gaps in the economy, strengthen the infra-structure needed for rapid industrial development, regulate trade to social advantage, and achieve increasing indigenous production of the basic materials and machines required by

industry, including equipment needed for defence. To mention a few principal examples; the production of steel ingots increased, mainly through public enterprise, from 1.5 million tonnes in 1950-51 to 6.2 million in 1965-66; of petroleum products from 3.4 million tonnes in 1955-56 to about 10 million in 1965-66; crude oil whose production was less than half a million tonnes as late as 1960-61 increased to 5 million by 1965-66; the production of fertilisers that was only 18,000 tonnes of nitrogen and phosphate in 1950-51 had increased to about 350,000 by 1965-66; and the production of machine tools increased from Rs. 30 lakhs worth of goods in 1950-51 to Rs. 23 crores in 1965-66.

1.17 The expansion and the achievements of the public sector are further apparent from the fact that its share in the reproduceable tangible wealth of the country increased from about 15 per cent in 1950-51 to 35 per cent by the end of the Third Plan period. This is bound to increase very much more with the further investment of about Rs. 3,500 crores in the industrial projects and the minerals schemes in the public sector envisaged in the Draft Outline of the Fourth Five Year Plan.

1.18 The achievements of the public sector so far have been quite creditable, particularly in view of the fact that some difficult projects having long gestation periods were set up in new fields in which the requisite technical know-how and trained manpower were not available in the country. But one cannot overlook the fact that the return on capital employed has not come up to expectations in many cases. An extremely large amount of capital has been already applied in the public sector, and still more is going to be invested in the Fourth Plan period. Every improvement in the utilization of this capital will result not only in providing better goods and services to the consumers, but also additional resources to the State at a time when resources are crucially needed for further development. Throughout our work this consideration has been uppermost in our minds, and we have not hesitated to suggest even radical changes wherever we felt that the existing systems or procedures were not conducive to the efficient utilization of the huge amount of public funds invested in public enterprises.

1.19 Recognising that public undertakings have to be accountable to Parliament, and that Government have to reserve to themselves certain powers for exercising control over them, we feel that, within the limits imposed by these two considerations, the maximum possible autonomy should be vested in the public undertakings. In our

view, the amount and area of control that Government are exercising at present' need close scrutiny. The desire for co-ordination sometimes leads to incursions into autonomy of the undertakings. In all our examination we have attempted to identify the factors which are responsible for this feature and have suggested radical measures, where necessary, with a view to maximising the autonomy that can be conferred on the public undertakings.

1.20 We are only too conscious of the limitations of our work as well as our lack of expertise in some of the areas that we have attempted to cover. For reasons that we have already mentioned, we believe that there is a great need for a permanent organization to examine the various problems encountered in the public sector and to suggest reforms. Considerations of practicability have led us to suggest that this function should be performed by the Bureau of Public Enterprises.

1.21 It must also be mentioned that both the Government and the public undertakings have been aware of the problems and shortcomings in the public sector for some time, and in many cases specific recommendations have also been made by the Parliamentary and other Committees that have studied the working of public undertakings. However, sufficient steps have not been taken to implement even such recommendations as were accepted by the Government. It is of the utmost importance that measures of reform suggested by the various committees and study groups and accepted by the Government and the public undertakings are expeditiously and effectively implemented in the field. For this purpose, public undertakings will also have to be provided with the expert and consultancy assistance that they may require. We have suggested this as one of the most important functions that the Bureau of Public Enterprises may perform.

1.22 Details and specific instances have been given in this Report wherever strictly required. In the course of our study we have gathered substantial data and material relevant to the problems that we set out to inquire into. We have made use of this material to understand the problems and to come to conclusions. But we cannot say that all the materials that we have collected are reflected in the contents of the Report. This material as well as the papers and background information put up for our consideration will be available for use to the agencies that may be entrusted with the task of processing and taking follow-up action on our recommendations.

1.25 Much as we wished, it has not been possible for us to ascertain facts in respect of all the undertakings of the various State Governments and to examine their working. From this angle, our report is mainly based on the working of the undertakings of the Central Government. However, from what we have seen of the undertakings of the State Governments that we looked into and the discussions we had with their chief executives and senior officers, we feel that our conclusions and findings are largely applicable to them too. The undertakings of the State Governments can indeed benefit from a scrutiny of the kind that the undertakings of the Central Government have been subjected to. Such an examination was done by the Parliamentary Committee on Public Undertakings in the case of the State-owned undertakings in Kerala. The Government of Maharashtra have set up a Committee to review the working of their undertakings. We hope that our Report and the recommendations that we make will be found useful by the various State Governments and the Committees that they may set up to review the working of their undertakings.

CHAPTER II

FORMS OF ORGANIZATION

2.1. Public enterprises have been organized in three forms. These are:

- (i) departmental undertakings;
- (ii) Government companies (registered as Joint-stock Companies); and
- (iii) statutory corporations (or public corporations).

The principal characteristics of each of these forms are as follows:

Departmental Undertaking

- (a) It is financed by annual appropriations from the Treasury and all, or a major share of, its revenues are paid into the Treasury;
- (b) it is subject to the budget, accounting and audit controls applicable to Government activities;
- (c) its permanent staff consists of civil servants, and their conditions of recruitment and service are the same as for other civil servants; and
- (d) it can be sued only by following the procedure prescribed for filing suits against the Government.

Government Company

- (a) It has most of the features of a private limited company;
- (b) the whole of the capital stock, or 51 per cent or over of it, is owned by the Government;
- (c) all the directors, or a majority of them, are appointed by the Government depending upon the extent to which private capital is participating in the enterprise;
- (d) it is a body corporate, created under a general law, viz, the Companies Act;
- (e) it can sue and be sued, enter into contract, and acquire property in its own name;

- (f) unlike the public corporation, it is created by an executive decision of the Government without Parliament's specific approval having been obtained and its Articles of Association, though conforming to an Act, are drawn up and are revisable by Government;
- (g) its funds are obtained from Government and, in some cases, from private shareholders, and through revenues derived from the sale of its goods and services;
- (h) it is generally exempt from the personnel, budget, accounting and audit laws and procedures applicable to Government departments; and
- (i) its employees, excluding the deputationists, are not civil servants.

Public Corporation

- (a) It is owned by the State;
- (b) it is created by a special law defining its objects, powers and privileges, and prescribing the form of management and its relationship with Government departments;
- (c) it is a body corporate and can sue and be sued, enter into contracts and acquire property in its own name;
- (d) except for appropriations to provide capital or to cover losses, it is usually independently financed; it obtains funds by borrowing either from the Government or, in some cases, from the public and through revenues derived from the sale of goods and services, and has the authority to use and re-use its revenue;
- (e) it is ordinarily not subject to the budget, accounting and audit laws and procedures applicable to Government departments; and
- (f) excluding the officers taken from Government departments on deputation, the employees of public corporations are not civil servants, and are not governed by Government regulations in respect of conditions of service.

2.2 It is not possible to single out any one of these three forms of organization as the only one suitable for the administration of all types of public enterprises and under all circumstances. In selecting

a suitable form for a particular enterprise several factors have to be considered such as the productive function of the enterprise, its operational and financial requirements, the nature and scale of its operations and its effect on the life of the community and the country's economy. It is also necessary to consider, within the context of the legal and administrative framework of the country, the bearing that each of the possible forms will have on the autonomy of the public undertakings and their relationship with Parliament and the Government. It is mainly from this point of view that we have gone into this question in detail.

2.3 Of the three forms, that we have mentioned, it is now generally accepted that the form of the departmental undertaking is unsuitable for the type of commercial and industrial enterprises with which we are concerned in this Report. The railways and the post office are notable examples of this form of organization, but their example is not very applicable; their operations, directly or indirectly, affect the entire community and as such the Parliament and Government have necessarily to exercise direct and near-continuous control on their working. The departmental form is also adopted on certain other considerations such as those of national security. Subject to these considerations, it is universally recognized that if public enterprises are to be run successfully, they must, within a more liberal concept of accountability, have the flexibility and autonomy necessary to function on sound business principles; and, therefore, should not be subject to the procedures obtaining in the administrative departments of Government including the procedures that govern budgeting, accounting and audit in these departments.

2.4 The choice between public corporation and Government company is a difficult one. Both the corporation and the company provide for autonomy and flexibility. It is not, therefore, possible to prescribe one and rule out the other. A list of public undertakings of the Central and the State Governments as at the end of the Third Plan period is appended as Annexure I. It will be apparent from this list that the choice so far has been predominantly in favour of the company form. Of the 70 Central Government undertakings, 64 have been organized as Government companies and 6 have been created by statute. The State Governments have also tended to favour the company form; there were about 145 Government companies in which one or more State Governments held either the whole of the share capital or a majority of it. On an average, almost every State has three to four statutory corporations

which are mainly the financial corporations, transport undertakings and electricity boards created under Central enabling Acts.

2.5 It is significant to note that Government had originally intended to adopt the form of public corporation when going in for State enterprise. The first Industrial Policy Resolution of 6th April, 1948, had envisaged that the 'management of State enterprise will, as a rule, be through the medium of public corporations under the statutory control of the Central Government'. Although this categorical statement of the Government's deliberate policy in this behalf was not modified in the second resolution on Industrial Policy issued on the 30th April, 1956, or in any subsequent declarations, Government did not make general use of the medium of public corporations. On the other hand, in actual practice, as we have pointed out earlier, it showed a distinct and almost overwhelming preference for the company form.

2.6 The company form of organization for public enterprises came in for much criticism in the beginning. Government being in most cases the only shareholder, it was said that the provisions of company law did not have much relevance to the Government company. Another objection was that the organization of public enterprises as companies reduced their accountability and diluted audit control. But this criticism has been largely met by writing special provisions into the Companies Act in 1956 with regard to the submission of Annual Reports and Accounts and audit by the Comptroller & Auditor-General. The principal defects generally attributed to the Government company form are that:

- (i) it evades the constitutional responsibilities which a State-owned enterprise should have to Government and Parliament;
- (ii) the law regulating limited companies becomes a mere fiction because all or most of the functions normally vested in the shareholders and in the management are reserved to Government;
- (iii) a meeting of shareholders in the case of a Government company is meaningless as the declaration of profits and the appointments to the Board are naturally reserved to the Government; and
- (iv) the extent of autonomy that it provides for can be materially affected or altered by executive agencies of the Government.

2.7 Mainly relying on the above considerations most of which had emerged from a UN Seminar held at Rangoon in 1954 (and later endorsed by another UN Seminar held at New Delhi in December, 1959), the Estimates Committee* recommended that all wholly State-owned public undertakings should generally be in the form of statutory corporations, and the company form should be an exception to be resorted to only—

- (i) when the Government may have to take over an existing enterprise in an emergency;
- (ii) where the State wishes to launch an enterprise in association with private capital; or
- (iii) where Government wish to start an enterprise with a view eventually to transferring it to private management.

2.8 Government, however, did not accept this recommendation (*vide* reply given in Sept. 1962) on the ground that the “company form was advantageous in that it allowed the flexibility and autonomy necessary for the successful operation of commercial enterprises and also provided for parliamentary control over the companies under the special provisions of the Companies Act.” The decision taken by Government in 1961 on the recommendations contained in the report of the Krishna Menon Committee regarding form of organization reads as follows:

“Government consider that the form of management of the undertakings should be determined by the requirements of each case. Accordingly, from the point of view of flexibility of operations, the company form of management would be preferable. In some instances, it would be necessary to form statutory corporations while in few others, for various reasons, it would be desirable to run the undertakings as departmental organizations.”

Government have thus kept the whole question open while going in almost invariably for the company form. We feel that Government have not yet laid down a rational basis or a well-defined set of criteria for determining which form would be suitable in different areas of enterprise.

*Eightieth Report of the Estimates Committee (2nd Lok Sabha)—April, 1960.

2.9 A comparative study of the pattern of the public sector in India with that prevailing in some of the foreign countries reveals two important distinctions. First, instead of setting up the public undertakings as statutory corporations or under the control of such corporations, the company form has been adopted in India. In the United Kingdom, USA and Canada, the form of public corporations has been adopted. In Italy, the company form has been retained for concerns brought within the public sector but it is confined to the sub-holding companies and the operating units. The two top management institutions that control all the operating units and sub-holding companies are the ENI and IRI,* and they are statutory corporations. Thus, it is only in India that Government seem to have adopted the method of running companies by directly holding shares in them. In Italy, the State holdings are administered by public corporations which, in turn, hold shares in a number of companies. The operating units are thus not subject to any form of administrative regulation other than that applicable to private commercial companies. In India, the Government companies have been subjected to both. While it is sometimes claimed that the advantages of the two systems, State management and private enterprise, have been combined in Government companies in India, many witnesses who appeared before us held the view that Government companies had merely succeeded in accumulating the disadvantages of both.

2.10 The second distinctive feature is that no single internal public authority has been created in India for a particular sector of industry and entrusted with the task of the general development of that sector including the running of undertakings in the sector and the setting up of new projects. There are thus no nationalized industries as such in India. What we have is a number of individual public undertakings operating in sectors reserved or designated for public enterprise (the exceptions are the departmentally-run railways, the atomic energy establishment and the factories producing arms and ammunitions, and the air corporations)—each depending directly on the Government for policy, finance and, in some cases, even management.

2.11 We feel that this situation has led to a fragmentation of the industrial effort in the public sector. We believe that the integration of this effort is essential if the public sector is to come into its own

*Ente Nazionale Idrocarburi (the great Petroleum complex) and Istituto per la Ricostruzione Industriale (Institute for Reconstruction of Industry).

and make the contribution to economic development that the Industrial Policy Resolution envisages from it. To promote this integration it is necessary to amalgamate public undertakings in such a manner that one integral corporation functions in each major area of public enterprise, operating the units that exist at present, and setting up new projects in the field of industry entrusted to the corporation. We have discussed this question in greater detail in the next chapter of our Report.

2.12 So far the strongest argument offered in support of the Government company form is its flexibility. Flexibility can be used to refer to the operational and functional flexibility that an enterprise should enjoy and also to refer to the flexibility or ease with which its Articles of Association, which determine its structure, can be drawn up and modified by the Ministry. To avoid ambiguity, we may look at the argument from both these senses. It cannot be argued that the company form alone can provide operational flexibility to the undertaking and that the statute of a corporation cannot be so drafted as to ensure full operational flexibility to the undertaking. If it is argued that the company form alone can provide the Ministry with the flexibility or ease to determine or revise the Articles of Association, and, therefore, the structure of a company, two questions arise: why should the need for determining and revising the Articles of Association arise frequently, and why should it be assumed that the Executive is better fitted to do this than the Parliament. One of the reasons that may have weighed in favour of retaining this type of flexibility with the Executive might have been the increasing number of undertakings and the practical difficulty of having to go before Parliament for getting separate legislation enacted for setting up each undertaking or revising its structure. This might have meant a considerable demand on Parliamentary time, and might also have meant some delay in setting up or revising the structure of undertakings. But it can also be argued that the very ease with which new companies can be formed by the Executive has led to an avoidable proliferation of undertakings, without any incentive to entrust new projects to going concerns. The answer to this lies in the rational amalgamation of industrial enterprises that we are suggesting. Once such integral corporations responsible for the functioning of public undertakings in each major area of public enterprise are set up, the number of undertakings for which Parliament has to legislate will be considerably reduced, and the statutes of such corporations can be so formulated as to ensure full opera-

tional flexibility. There will then be hardly any occasion to give independent legal shape to the governing organs of so many new projects each of which is to be invested with a separate legal entity.

2.13 It is sometimes argued that the form of public corporation provides less operational flexibility than that available in a Government company. It is true that a corporation is set up by an Act of Parliament, and the statute or the nature of the corporation can, therefore, be altered only by Parliament. This does not mean inflexibility. As we have stated above, flexibility cannot be defined as the ease with which the Ministry can revise the structure of an undertaking or increase or decrease the powers reserved to Government under the Articles of Association. The flexibility of functioning that a public corporation has, might be inhibited by the kind of statutes that Parliament gives to it, but the fact that the statutes are approved by Parliament and not determined by the Executive does not restrict the flexibility of a corporation. Flexibility depends actually on the way the Act is drawn up. It is true that if matters of detail are incorporated in the Act itself, a lot of effort is needed to make changes which experience later may indicate to be necessary. We should also remember that at the time most of the existing statutes were drawn up, public undertakings in general did not enjoy the degree of autonomy which has lately been conferred on them. For instance, under the Air Corporations Act the corporations can only approve cases of capital expenditure upto and within the limit of Rs. 15 lakhs; the Act also prescribes that the rules governing the terms and conditions of service of the employees will be drawn up with the approval of the Government. These provisions are far more restrictive than those contained in the Articles of Association of most of the Government companies some of which operate on a much smaller scale than the Air India or the Indian Airlines Corporation. If the need for the flexibility and autonomy required by public undertakings is kept firmly in view, there is no reason why Acts cannot be drawn up in such a manner as to reduce or even eliminate the rigidity characterising some of the existing statutes. The rigidity of the statutes of the corporations that have been set up or the inadequacy of autonomy provided for in statutes is no reason to conclude that these are defects inherent in the conception of public corporations and that Acts of Parliament setting up public corporations cannot provide for flexibility.

2.14 There is considerable divergence of opinion on the question whether a public undertaking can enjoy greater autonomy as a

Government company or as a public corporation. It has to be pointed out that the form of the public corporation has not yet been employed in our country for the industrial and manufacturing public enterprises; and except for the Food Corporation of India, not for the commercial and trading concerns either. It is thus a form that has hardly been given a trial in our country. As regards the autonomy enjoyed by Government companies, opinions are equally conflicting. From the Government pronouncements on the subject it appears that the company form is conducive to greater autonomy; the reports of the Parliamentary Committees indicate the very opposite. Quite some time back the Estimates Committee had the following comments* to offer:

“The Committee have noticed that in the relations between these undertakings and the Ministry, the former are treated in the same manner as departments and offices of Government, controlled and supervised by the Secretariat. The State undertakings have thus become adjuncts to Ministries and are treated more or less on the same lines as any subordinate organisation or office.”

The Estimates Committee of the Second Lok Sabha (19th Report, 1958) again reiterated this recommendation while reviewing the action taken on the above recommendation.

2.15 We have carefully considered this question and feel that there is one very important distinction between a public corporation and the Government company. In the case of the latter, the autonomy of the undertaking is largely dependent on the controlling Ministry which writes and can revise its Articles of Association; while in the case of the public corporation, provisions conferring a degree of autonomy on the undertaking are contained in an Act passed by Parliament. This distinction, in our view, is extremely important because of the effect it has on the attitude of the Parliamentary Committees and the Members of Parliament towards the autonomy of the undertaking. Having passed the Act creating an ‘autonomous’ corporation, Parliament and its Committees acquire and evince an interest in ensuring that the autonomy conferred by them on the undertaking is not eroded by the controlling Ministry. In the same way, during interpellations in Parliament, the responsible Minister is able to take the stand that the Minister should not

*Sixteenth Report of the Estimates Committee (First Lok Sabha).

be called upon to account for the actions of the public corporation, that fall within the area of autonomy that Parliament itself has mapped out and guaranteed to the corporations. This will be an effective disincentive against deliberate or unintentional reference to matters that fall within the scope of day-to-day administration. These changes in attitudes and practices that will flow from the setting up of public corporations will ensure a measure of real autonomy for the public enterprise.

2.16 Another aspect of the question concerns the laying down of the objectives and obligations of public undertakings. The way these have been formulated in the Articles of Association leaves much to be desired. In fact, the Parliamentary Committees have often pointed out to these inadequacies. The Estimates Committee at one time *suggested the enactment of a law similar to the general laws of the USA and Canada to govern statutory corporations and Government companies in India. However, this was not pressed further. In our view, such a step would not be feasible in India because of the difficulty of bringing under one general law such a large number of public undertakings engaged in such a variety of activity. We believe that the enactment of a general law in the USA and Canada has led to greater control of the undertakings and to a certain amount of rigidity in their organization and management. Both these developments will be quite harmful to public enterprise in India. The formulation of separate statutes for different areas of public enterprise will not suffer from these defects. On the contrary, it will lead to a clearer and more concrete definition of their objectives and obligations.

2.17 We have already indicated the various advantages that will flow from the adoption of the public corporation form for the public enterprises in our country. We feel it to be essential that the objectives and obligations of these undertakings, which have huge public funds invested in them, are explicitly laid down in an Act of Parliament after public debate. This will lead to a clearer definition of objectives and, therefore, a better understanding by management of their responsibilities. The coordinates of autonomy and accountability would have been laid down with the imprimatur of Parliament, and this will provide a greater incentive to Members of Parliament, Ministries and the managements of the undertakings to uphold the sanctity of the autonomy while insisting on account-

*Eightieth Report of the Estimates Committee (Second Lok Sabha).

ability. The fact that provisions conferring powers on the management boards of these undertakings have been embodied in an Act passed by Parliament will have a salutary effect on the attitude of Members and Ministers towards the autonomy of these undertakings. It will also result in a clear definition of the relationship of these undertakings with the Parliament and the Government. The vagueness that surrounds these relations at present will thus tend to get reduced and control by Government will come to be more openly exercised thereby restricting the area of informal control.

2.18 To sum up; of all the three forms in which public undertakings have been organized, the departmental form is one that is generally regarded suitable only for undertakings that provide services affecting the totality of the community or the security of the country. The flexibility and autonomy that are needed for commercial and industrial enterprises cannot be provided by a departmental form. Such undertakings require a high degree of freedom, boldness and enterprise in management, and must be free from the circumspection and cumbersome, time-consuming and vexatious procedures of departmental administration. Both the company form and the public corporation form can provide for this flexibility and autonomy. It is not, therefore, possible to prescribe one of these forms as applicable for all types of undertakings and under all circumstances. The choice will have to depend on the nature of the undertaking, its importance, its magnitude and investment and the role that it is expected to play in economic development, capital formation and provision of goods and services. What is crucial is the vigilance and responsibility with which autonomy is exercised and the meticulousness and spirit of cooperation with which autonomy is respected.

2.19 The Articles of Association of the company or the statutes of the corporation can provide for autonomy and operational flexibility. The company form gives greater freedom to the Executive to determine the structure and autonomy of the undertaking and to decrease or increase the autonomy by revising the Articles of Association. The corporation is set up by an Act of Parliament. It is the embodiment of an expressed desire of Parliament to set up a new agency. It is, therefore, set up after a full and informed public debate on the need, objectives, financial and economic obligations, and structure and autonomy of the new agency. Such a debate in Parliament and the decision that follows it invest the corporation with the sanctity

of national approval for its objectives, obligations and autonomy. This is essential for a public undertaking that is created by heavy investments from the scarce resources at the command of the exchequer. While the company form may have all the other advantages that a corporation may have, the sanctity and individuality that a public corporation alone can acquire are essential in democracy that nurses and depends on the efficiency of the public sector. There might have been reasons for leaning heavily on the company form at a certain stage of the development of public enterprises in the country. Nor can the company form be discarded altogether as useless and unprofitable under all circumstances.

2.20 However, the weight of the considerations that we have detailed in the above paragraphs has led us to the conclusion that the form of public corporation is the one that is best fitted for the commercial and industrial undertakings in the public sector. We are convinced that the public corporation form has distinct advantages over that of the Government company. We, therefore, recommend that the Government should implement the declared intention of the Industrial Policy Resolution* in this behalf and adopt the form of public corporation as the general rule for the industrial and commercial undertakings in the public sector in India.

2.21 For a more specific examination of the question, it is necessary to classify the public enterprises under a few broad heads on the basis of their nature and objectives. We have done this in the case of the public undertakings of the Central Government. A classification of the 70 Central Government undertakings (listed in Annexure I) under these broad heads reveals the following picture:

| Nature of Undertakings | Govt Companies | Statutory Corporations | Total |
|---|----------------|------------------------|----------|
| Industrial & Manufacturing | 40 | .. | 40 |
| Public Utilities & Services | 3 | 2 | 5 |
| Promotional & Developmental | 5 | 2 | 7 |
| Commercial & Trading (incl. Construction agencies & hotels) | 14 | 1 | 15 |
| Financial Institutions (incl. LIC) | 2 | 1 | 3 |
| TOTAL | 64 | 6 | 7 |

*Industrial Policy Resolution of April, 1948.

2.22 Our recommendations with respect to each of the above classes are as follows:

(i) *Industrial and Manufacturing Undertakings*

All public enterprises in this area should be entrusted to public corporations each governing a number of operating units in the same area of industry. We recognise that it would be advantageous to retain the company form for units in which there is an element of private participation, but in such cases the State-owned shares held in the company should be owned not by Government directly but in the name of the public corporation. For example, the State-owned shares in Cochin Refineries and Madras Refineries could be held by the public corporation set up in the oil sector; and the State-owned shares in the Fertilizers & Chemicals Travancore Limited by the public corporation set up in the Fertilizers & Chemicals sector. Further organizational details are discussed in the next chapter.

(ii) *Public Utilities and Services*

As far as the Central Government is concerned, this category relates to only 5 transport (road, air and sea) undertakings. Of these undertakings, the two undertakings concerning air transport are public corporations. The undertakings of the State Governments falling in this category are the electricity boards and transport undertakings which have been set up as statutory bodies. It is generally recognised that public utilities and services require greater statutory authority for their operations. Their operations also serve the community in general or a primary need of industry. We feel that the public corporation is a more suitable form for undertakings falling in this category. We would also recommend that the statutes of existing corporations in the sector be revised with a view to ensuring that they are in accord with the needs of autonomy and flexibility.

(iii) *Promotional and Developmental Undertakings*

Of the 7 undertakings falling in this category, the Oil and Natural Gas Commission and the Central Warehousing Corporation are public corporations, and the remaining 5

are Government companies. The very nature of these undertakings being promotional and developmental signifies that the accent is more on the non-commercial objectives although the operations are sought to be carried out on commercial lines and not on departmental lines. We feel that the company form is not suitable for such undertakings. In certain cases, the activities in which these undertakings are engaged can be carried on equally well by the Government departments concerned by simplifying certain procedures. Undertakings like the National Research Development Corporation, the Rehabilitation Industries Corporation, and the Rehabilitation Housing Corporation, seem to have been created to obtain freedom from the budgetary and accounts procedures applicable to Government departments. These advantages could have been achieved by creating a revolving fund under the control of the Ministry concerned without going in for the company form. We recommend that Government may re-examine the desirability of continuing these undertakings as Government companies. A similar examination may be made in respect of the National Industrial Development Corporation and the National Small Industries Corporation.

(iv) *Commercial and Trading Concerns*

Except for the Food Corporation of India which has been established by statute, the remaining 14 undertakings in this category have the company form. A common objective of these undertakings is to act as instruments for the social regulation of trade and business in the field of their operations. Because of this reason, hotels and construction undertakings, such as the National Buildings Construction Corporation and the National Projects Construction Corporation, have also been included in this category. Since these undertakings operate in competition with their counterparts in the private sector, there is perhaps some justification in retaining the company form of organization for these undertakings.

(v) *Financial Institutions*

Besides the Life Insurance Corporation which occupies a unique position in the country's economy and which

is rightly a statutory corporation, there are two undertakings both having the company form. Both these undertakings, viz., the Export Credit & Guarantee Corporation and the Film Finance Corporation function as lending agencies. These may continue as companies.

2.23 We have also given thought to the suitability of the various provisions of the Companies Act as applicable to the Government companies. In our view there are various provisions of the Companies Act which are not at all meaningful in their applicability to the wholly-owned Government companies. The elaborate procedures prescribing the holding of general body meetings and the annual general body meetings for passing accounts and declaring dividends and the provisions requiring various notices to be given to the Registrar of Companies and filing of returns etc result in an avoidable waste of effort on the part of the management. There are also a number of clauses in the Articles of Association laying down the detailed procedure for transferring and making calls on shares, forfeiture of shares and imposition of penalties which are quite meaningless. Although section 620 of the Companies Act empowers Government to exempt Government companies from the operation of any section of the Act, hardly any use has been made so far of this power. The only notifications issued in this respect have been for vesting jurisdiction in certain cases in the Central Government instead of the courts and in exempting Government companies from certain provisions relating to their name and address. We suggest that a general review of the Companies Act and the applicability of its various sections to Government companies should be undertaken to identify provisions that have no relevance or significance in the case of Government companies and are merely resulting in the observance of irksome formalities. Government companies should then be exempted from the operation of such provisions under section 620 of the Companies Act.

2.24 While the views expressed and the conclusions reached in this chapter and in the third chapter of this Report represent the views of the majority of the members of the Study Team, some members had the following reservations. They too agree with the majority view that there should be a distinct preference for large-sized corporations, but they base this preference on the advantages which such corporations would yield in such matters as economies

of scale, provision of common services, ability to undertake research and development and the greater capacity of these corporations to attract persons of suitable stature, particularly at the higher management level. These members do not, however, share the view that such corporations should necessarily be statutory corporations, as distinct from Government companies under the Companies Act. They feel that the autonomy of a corporation or a company does not depend on whether it is organized as a statutory one or established under the Companies Act. On the other hand, statutory corporations would tend to be rigid in the sense that any change in their constitution would need to be processed as amendments to the relevant Act. They are of the view that a Government company, on the contrary, which is guided by Articles of Association would be more flexible as it would be possible to introduce such changes as may be necessary from time to time by suitable amendments of the Articles of Association with the approval of the Board of Directors and the shareholders. They also feel that insofar as accountability to Government and to Parliament is concerned, it would make little difference whether a unit is constituted as a statutory corporation or a Government company. In the opinion of these members, therefore, the form of organization should depend on the circumstances of each case and there need be no marked preference for the statutory corporations.

CHAPTER III

ORGANIZATIONAL STRUCTURE AND MANAGEMENT BOARDS

The Background

3.1 The Industrial Policy Resolution of the Government of India made in April, 1956, charts out the areas of public enterprises in the country. This resolution lists several industries in Schedule A and states that the future development of these industries would be the exclusive responsibility of the State. Some other industries are put in Schedule B, and the Resolution lays it down that the State would generally take the initiative for establishing new undertakings in these industries, but private enterprise was also expected to supplement Government's efforts. In accordance with the policy enunciated in this Resolution, the Government proceeded to set up a number of undertakings in the public sector. But the directive of the first Industrial Policy Resolution that 'management of State enterprise will, as a rule, be through the medium of public corporations under the statutory control of the Central Government' was not followed. Most of the undertakings were set up as individual companies. The medium of public corporations was not adopted, nor was a single integral authority constituted to set up and run projects in each major industry in the public sector.

3.2 As a result, the structure of the public sector, as it has developed in India, reveals two unique characteristics from the point of view of organization. First, new projects have been set up directly by the Government and given the company form even though they were set up anew and the entire funds belonged to the Government; and secondly, more than one public undertaking with an independent legal status have been set up in the same field. Most of these are individual undertakings functioning directly under the Ministry, depending on the Ministry not only for all matters of policy, but also for the solution of all other problems that arise when more than one undertaking operate individually in the same field.

3.3 To an extent, the multi-unit projects like Hindustan Steel, Fertilizer Corporation of India, etc, are exceptions to the second characteristic in the sense that these undertakings have boards that are charged with the responsibility for managing many units,

and so function at an intermediate level between management at the unit level and the controlling Ministry. They are multi-unit undertakings. But this fact has not made the Government entrust any special responsibility for the development of the industry to them or give them any special status or greater autonomy. There are 14 such undertakings of the Central Government but none of them except the air corporations has been exclusively charged with any general responsibility for the development of its particular sector and new projects have often been set up by the Ministries outside their jurisdiction. There are no special powers that the Ministry has transferred to the boards of these undertakings, thus making it possible for the units to benefit from the elimination of the need to go up to the controlling Ministry on a range of matters that are not matters of high policy and yet not matters of the day-to-day administration that the unit itself has to handle.

3.4 An analysis of the Articles of Association of the multi-unit Government companies shows that their boards have been vested with the same kind of powers as those of many of the single-unit undertakings. This puts the boards of multi-unit undertakings in a somewhat anomalous position. They do not have the additional administrative and financial powers that can make them useful to the managements at the unit level. Under such circumstances, their boards and head offices often attract the criticism that they have been unnecessarily interposed between the Ministry and the operating units. While General Managers of units consider them a source of delay, a decelerating medium that slows down the process of approaching the Ministry and securing its approval, the Ministries themselves have been known to deal directly with the General Managers, thus reminding both the management at the unit level and the board at the multi-unit level of the limitations and utility of such boards. The boards of these multi-unit projects are thus quite different from the apex governing bodies that one finds in the public sector in foreign countries, like the ENI and IRI of Italy, and the coal boards in the United Kingdom and France. But before discussing the changes that the existing organizational structure requires, we should review the current composition of the Indian management boards and the powers enjoyed by them.

The Present Management Boards

3.5 The management of public undertakings at the top has been invariably entrusted to a governing board. In the case of Govern-

ment companies it is a board of directors similar to that of private concerns. An analysis of the composition of the governing boards of public undertakings in India shows that the policy-making type of board has been largely preferred to the functional type. There are a few cases of a mixed type of board as well, having both part-time and full-time directors. Generally, these boards have a full-time chairman who is also the managing director, as in the case of Heavy Electricals Ltd, Bhopal, and the Neyveli Lignite Corporation, and, in a few cases, a part-time chairman with a full-time managing director as in the case of the Bharat Electronics, Hindustan Aeronautics Ltd etc. With few exceptions, all directors except the chief executive on the board serve part-time and are representatives of the Central Ministries, or, in a few cases, the State Governments. There are a few non-officials who also serve as part-time members of the board. Though this is the general pattern of the boards of most public undertakings, there are a few exceptions. These are the Indian Oil Corporation, which has 5 full-time official directors; the State Trading Corporation and the Minerals & Metals Trading Corporation, each having two full-time official directors in addition to the full-time chairman, and the Oil & Natural Gas Commission which is a statutory corporation. The controlling Ministry and the Ministry of Finance are almost invariably represented on the board.

3.6 The Department of Company Affairs recently conducted a study of the 53 companies wholly owned by the Central Government. It was found that the number of directorships in these companies ranged between 5 and 15, and that in all there were 483 directorships (as on 31-3-1966) which were held by 367 persons. The occupational distribution of the directors was found to be as follows:

| | |
|-------------------------------------|-----|
| Government service | 236 |
| Business | 55 |
| Specialists and Technicians | 49 |
| Accountants, Doctors, Lawyers, etc. | 27 |
| | 367 |

The 10 other companies, not wholly owned by Government but in which Government hold majority shares, had a total of 98 directorships, out of which 69 were held by Government servants, 27 by businessmen and 2 by specialists and technicians. This shows that a sizable majority of the directorships on the boards of Government companies are held by Government officials on a part-time basis.

Although similar consolidated figures are not available in respect of the State Governments' companies, the number of directorships held by the Government officials in their case is even larger than that in the Central Government undertakings. These directorships are held on a part-time basis, mostly, by the Secretaries of the concerned departments of the State Government.

3.7 As regards the 6 corporations under the control of the Central Government, the position varies widely: in the LIC, only one member of the Corporation is a Government official, the remaining 14 being non-officials; in the ONGC, all the 5 members of the Commission are officials, and in the remaining 4 corporations, namely the IAC, Air India, Food Corporation of India and the Central Warehousing Corporation, the division between officials and non-officials is almost even. In all, there were 62 directorships/memberships of the governing boards of these 6 corporations. Of these, 26 were held by officials and 36 by non-officials.

Suitability of different types of Boards

3.8 Broadly speaking, there are three types of boards that we come across in public undertakings, and each of these may be found suitable under different circumstances. These are:

- (i) the policy-making board—the members of such a board are part-time, except the chief executive who may be the full-time chairman or managing director (most of the public undertakings have this type of boards at present);
- (ii) the functional board—the members of such a board are full-time, and have specific responsibility for different subjects (the most notable example is that of the Railway Board); and
- (iii) the mixed board—which has both part-time and full-time directors, the latter having specific responsibility for some of the subjects (the boards of the Indian Oil Corporation and the two trading corporations are examples of this kind).

3.9 Preferences on this issue differ widely. Government too have adopted different types of boards for different undertakings engaged in, more or less, the same kind of activity. One of the arguments advanced in favour of a policy-making board is that of economy. It is argued that where the operations of an undertaking are not on a

sufficiently large scale, the work does not require more than one full-time director, and the appointment of more may simply involve unnecessary expenditure and cause frictions. On the other hand, those who support the policy-making board argue that the presence of functional directors on the board often blurs the authority of the chief executive and leads to friction. They, therefore, hold that there is considerable advantage in having only one executive responsible for the undertaking's operations as a member of the board.

3.10 On the other hand, it is asserted that a board composed of part-time directors hardly serves much purpose since part-time directors are unable to devote the time and attention required of a director. Moreover, most of these part-time directors are busy Government officials. Sometimes, they are so pre-occupied with other responsibilities that they do not find the time to attend the meetings of the board, especially if meetings take place fairly frequently. We have also been told that some of these representatives of the Government on the boards do not care to acquaint themselves with the agenda even when they attend meetings since they feel that it did not very much matter what the board decided since the real or ultimate deciding authority was the Ministry itself, and they could exercise their minds and their rights when matters went up to the Ministry from the Board. The general view of most of the witnesses who appeared before us was that Government officials holding part-time directorships acted more as representatives of their respective ministries than as members of a team entrusted with the development and management of an undertaking. We were also told that there were instances of the representatives of the Government concurring with the views of other members of the board while at the meeting of the board, and taking a contrary view when the same matter went up to the Ministry for consideration and approval. Many of the chief executives who appeared before us pointed out these problems and stated that in most cases the part-time directors were neither fully aware of the problem of the undertakings nor in a position to make any significant contribution to the functioning or growth of the undertakings.

3.11 Further, in the present scheme of things where policy is laid down by the Government and important powers of financial control are either reserved to the Government or in reality come to be exercised by the controlling Ministry, the role of the policy-making

board becomes somewhat ambiguous and atrophied. It cannot deal with high policy since this is a prerogative of the Government. It cannot deal with day-to-day administration which is within the domain of the chief executive. Thus it is reduced to a quasi-administrative level and compelled to look for and function in an area which is neither reserved to the Government nor delegated to the chief executive. It is in this context that some of the policy-making boards, as constituted today, attract the criticism of being ineffective and even redundant.

3.12 There is yet another way of looking at the policy-making board, namely as a kind of 'peace council' on which various interests like workers, consumers and the Government department concerned are represented. Such 'representative' boards are common in France where a certain number of directors come from different interest groups. In boards of this kind, the representatives argue and hammer out their differences in an attempt to hand out an 'agreed' directive to the management. In India, the policy-making boards can be said to bear some kind of resemblance to this type inasmuch as they bring together representatives of different interests connected with the undertaking. Here, it is not the non-Governmental interests that are represented on the board but the various Ministries that are directly or indirectly connected with the affairs of the undertakings. Thus, these boards are mostly composed of people who represent a Ministry or a Department and who have not necessarily been selected for their superior knowledge of management or the problems of the industry concerned. Such a board can at best function as a coordinating body and not as a board that is competent to give advice or policy guidelines to management.

3.13 We are of the view that in the case of the smaller public undertakings, there is perhaps an advantage in having a policy-making board. It is, however, injudicious to load these boards with busy Government officials in an attempt to give representation to every governmental agency concerned with the operation of the undertaking. It is neither necessary nor conducive to the effective functioning of the undertaking. It has now become the accepted practice to have one representative of the administrative Ministry and another of the Finance Ministry on every board. We have no doubt that this is both necessary and useful. But with the exception of these two representatives of the Government the attempt should be to select members whose experience and qualifications will benefit the

undertaking and who have adequate time and interest to do justice to their job of part-time directorship and to the undertaking.

3.14 There is little doubt that a fully functional board is neither possible nor desirable for every public undertaking covered in this Report. We are convinced, however, that except for the very small enterprises a few functional directors must be included in every board. We do not think this will necessarily cause friction or blur the authority of the chief executive. The executive heads of key departments should be looked upon not as mere subordinates of the chief executive but as the members of a team that he heads. We want the superior authority of the chief executive to be recognized and respected, but we also want the chief executive as well as the heads of the different departments to realise that the success of an industrial or commercial undertaking will depend on the ability of the top management to function as a team. We are aware that there have been a few instances in which the presence of full-time functional directors led to a good deal of friction. But we believe that this kind of situation can be avoided by according a predominant position to the chairman and by the controlling Ministry recognizing and scrupulously respecting this superiority by abstaining from dealing directly with the functional directors except with the knowledge and concurrence of the chairman. We feel that in such a mixed type of board the chief executive should be made the chairman of the board; but, if for some reason, it is found specially advantageous to have a part-time chairman, the chief executive should be designated the vice-chairman.

3.15 Of all the areas of public enterprise, the most important and crucial from the point of view of general economic development is that of the industrial and manufacturing concerns. These concerns also account for most of the investment made in the public sector. Of the total investment of about Rs. 2,400 crores in the 70 undertakings of the Government of India as at the end of 1965-66, about Rs. 2,200 crores was in the industrial and manufacturing concerns. The predominance of this group in the public sector as a whole is expected to increase further during the period of the Fourth Plan. We have, therefore, directed the major part of our scrutiny to this field. We also feel that it is primarily in this area that a radical re-organization is called for.

3.16 It is possible to divide the whole area of industrial public enterprise covered by the Central Government undertakings* in about 6 categories. They are—

- (i) Iron and Steel
- (ii) Engineering including Electricals and Machine Tools
- (iii) Coal and Lignite
- (iv) Petroleum and Petro-chemicals
- (v) Mining of iron and other ores and mining and Processing of Non-Ferrous Metals
- (vi) Fertilisers, Chemicals and Drugs.

By the end of the Third Plan period, the Central Government had set up 34 undertakings in the above areas. Most of these undertakings were set up directly by the Government, and not by the undertakings or corporations that were already functioning in the different industries in the public sector. They were set up as individual undertakings, and in most cases as separate Government companies. We have already pointed out that the adoption of the company form was not in conformity with the intention of the first Industrial Policy Resolution which visualised that the public sector industries would function through the medium of public corporations.

3.17 The establishment of a number of individual undertakings of varying sizes, very often functioning in the same field of industry, has led to a fragmentation of the industrial effort in the public sector. The individual undertakings have not been charged with any specific responsibility for the development of the industry. There is thus no autonomous body that is charged with the developmental and promotional effort that is required to nurse a new industry and make it yield the optimum social and economic advantages that are sought from it. It can be argued that the responsibility for planning and promoting industrial effort in the public sector vests in the Government and that this responsibility cannot be transferred to any other body. There can be no doubt that the ultimate responsibility for planning and achieving industrial development in the public sector is solely that of the Government, that all decisions of policy and all decisions that determine the size and direction of investment in the public sector have to be taken by Government. But the development of an industry does not depend only on these decisions. It

*This excludes departmental undertakings, one undertaking of the Deptt. of Atomic Energy and six of the Ministry of Defence.

depends also on the initiative, boldness, expedition and efficiency with which these decisions on high policy and investment are translated into day-to-day managerial decisions necessary for the success of individual projects and the growth and development of the industry as a whole.

3.18 The multiplicity of these undertakings and the inadequacies inherent in their size have made them incapable of undertaking the promotional and developmental effort needed for the development of the industry as a whole. They have neither the powers nor the resources necessary for such a task. They have also found that their size does not permit them to avail of the economies of large-scale operations, to provide adequate prospects to their employees and to acquire and employ modern techniques that are necessary to improve efficiency.

3.19 In the absence of an integral corporation charged with the responsibility for coordinating the effort in the industry and for providing the direction, supervision and auxiliary services that individual units require, the Ministry itself has had to assume certain functions of coordination. This has necessarily had its effect on the operational autonomy of the undertaking. The management develops the habit of looking for and depending on the advice of the Ministry even on matters that legally fall within their own competence. The controlling Ministry develops the expectation that its views would be sought even on matters that are not strictly within the area of powers reserved for the Government. A feeling begins to develop that those who shoulder the responsibility for operations at the project level are directly accountable to the controlling Ministry. This leads to a situation in which Project Managers have to spend a *good deal* of their time and effort supplying information and seeking clearance for decisions. The interest that the Ministry takes in the project becomes so comprehensive and akin to that of the management that it inevitably filters down to the area of day-to-day administration. The inadequacy of the size and status of the undertaking, the status of the deputationists who are in charge of the management; and the dependence on the controlling Ministry for pre-scrutiny and sanction and even for matters not legally reserved to the Government, can create a situation in which responsibility gets blurred and the legal autonomy provided to the undertaking is rendered illusory and infructuous.

3.20 The absence of an integral corporation for the industry thus leads to fragmentation of effort and exposes the autonomy of public

undertakings to the danger of erosion. The device that other countries have used to combat these dangers of fragmentation of effort and erosion of autonomy is that of the integral public corporation charged with the responsibility for the development and management of the industry. These corporations, like the Coal Boards of UK and France, and IRI and ENI of Italy, have worked with considerable success and there is no reason to believe that such corporations will not do so in our country as well.

3.21 We are aware that these integral corporations too have to guard against certain dangers. They should not lead to diffusion of responsibility or ambiguity in the respective responsibilities of the Ministry, the corporation and the subsidiary units. They should insulate the subsidiary unit from the deleterious effects of interference in day-to-day administration. But they should not themselves become slow-footed leviathans concentrating too much of power, authority and initiative in themselves. The success of these integral corporations will, therefore, depend on two factors, one, the extent of real autonomy and the amplitude of powers to cover the sub-policy area that is transferred to them, and two, the dexterity with which they delegate optimum powers and initiative to the subsidiary units while providing for the need to review or resume the use of these powers in the interest of the industry.

3.22 We have carefully considered this question and have taken into account the possible disadvantages in setting up such corporations. One of the most important considerations should be that of manageability. It can be argued that large public corporations of the type that we have suggested will become too huge and cumbersome and lead to undue centralisation affecting the speed of operations at the project level. While this danger must be borne in mind and guarded against in devising the organizational structure, we feel that it should be quite possible to ensure an optimum degree of delegation of powers all along the line by laying down standard guidelines on the powers to be entrusted to the managers at the project level and the functions that should be performed at the level of the corporation.

3.23 We, therefore, recommend that all the industrial and manufacturing concerns, except those under the control of the Ministry of Defence and the Department of Atomic Energy, be brought under integral public corporations. We have excluded the defence undertakings from the scope of this recommendation because of the special

requirements of national security and the fact that another study team on defence matters is studying this question.

3.24 In our view, the setting up of the integral public corporations in the industrial and manufacturing field will result in the following advantages:

- (i) it will end the fragmentation of the industrial effort in the public sector and promote the integration of the efforts to develop each industry in the public sector;
- (ii) it will reduce the span of Government control as many of the functions that are coordinative *per se* will be taken care of at the level of the integral corporation;
- (iii) it will make Government control more effective by confining it to a higher level and concentrating it on the few vital and strategic points that Government need to control to discharge their responsibility for the formulation of policy and for ensuring that policy is implemented by the management;
- (iv) it will secure for management at the operating level a greater detachment from direct bureaucratic control and political influence, both of which are inimical to initiative, experimentation and vigorous management;
- (v) it will enable the public enterprises to establish otherwise expensive staff organizations in fields like designing and consultancy, cost and management accounting, industrial engineering, and research;
- (vi) it will lead to better personnel management in the public enterprises, and greater uniformity in the terms and conditions of service of employees;
- (vii) it will enable the corporation to avail of the economies of large-scale operations and to establish common service facilities like training for the particular requirements of the industry and purchase and sales organizations with effectiveness and economy;
- (viii) it will provide much wider prospects to the managerial and technical personnel of public enterprises increasing the capacity of these enterprises to attract and retain suitable personnel; and

- (ix) it will result in a more rational deployment and utilization of designing and construction engineering personnel and expensive construction equipment.

3.25 We have attempted a regrouping of 37 Central Government undertakings* which can be brought under the integral public corporations that, in our view, should be set up in the industrial and manufacturing field. Although we have not examined in detail the application of this approach to undertakings of the State Governments, we feel sure that similar possibilities exist in their case too. Many State Governments have already taken steps to bring the administration of their public undertakings under one department, or have set up boards of management for a group of undertakings with a common chairman and a few common members. We hope that the lines laid down by us in this chapter will also be of use to the State Governments in bringing about a rational reorganization of the State-owned undertakings.

3.26 We may here point out the fact that certain multi-unit projects in the public sector at present have units which may more appropriately belong to a corporation other than the one being proposed for that multi-unit project as a whole. For instance, the Hindustan Steel have a fertiliser plant at Rourkela as well as certain coal washeries. There are two possible solutions. One is to attach these units to the corporations created in their respective fields of industry, and the other is to let them remain under the proposed Iron and Steel Corporation. Another example is that of the Neyveli Lignite Corporation which, apart from its main activities, also runs a fertiliser plant. It is difficult to lay down any hard and fast rule for these cases but experience indicates that such units do not receive adequate attention from the top management. The Committee on Public Undertakings have often expressed the view that the existing arrangements have not been conducive to the efficient running of these units. We suggest that normally the principle should be to entrust such units to the corporation set up in the particular field of industry to which they belong even though they may at present be forming a part of a complex under the purview of another corporation. The only exceptions that we can visualize are projects that have been approved and established as integrants of a complex essential for the economic viability of the total complex itself.

*See Part I of Annexure V.

Functions of the Public Corporations

3.27 Two main considerations are relevant to the determination of the question as to what functions should be assigned to these public corporations. The danger of an undue centralisation of powers at the corporation level has already been mentioned. It will be necessary to ensure that the corporations grant the maximum possible operational autonomy to the project managers. With this aim in view, the responsibilities that should be entrusted to the top management boards of public corporations have been very ably summed up by Professor Marshall Dimock in the following words :

Sub-policy making; checking the internal budgetary programme of the enterprises; studying organizational questions; making strategic executive appointments; controlling financial methods and reporting; and conducting public relations.

To the above, we would like to add the responsibility for providing the subsidiary units with management and consultancy services and certain common service facilities.

3.28 We, therefore, recommend that the principal functions of the public corporations should be—

- (i) to advise the Minister on general matters affecting the public sector industry;
- (ii) to be responsible for the promotion and development of the public sector industry including the setting up of new projects (within the Plan);
- (iii) to receive directives from Government and to secure their implementation;
- (iv) to encourage, promote, provide as service to its subsidiary units, or coordinate activities relating to—
 - (a) research and consultancy,
 - (b) marketing and purchasing,
 - (c) recruitment and training of personnel, and
 - (d) such other common services as can be more conveniently and economically provided by a central body;
- (v) to lay down a common wage policy for the workers of the corporation within such national policy as may be laid down by Government;

- (vi) to approve the revenue budgets of the subsidiary units;
- (vii) to scrutinise the capital budgets of the subsidiary units and submit a consolidated budget to the controlling Ministry and Parliament;
- (viii) to make appointments to senior posts, the powers for which are not reserved to Government or delegated to lower management levels; and
- (ix) to determine the pricing policy of the corporation subject to directives given by the Government.

Minister's powers in relation to Public Corporations

3.29 In a subsequent chapter, we shall discuss the powers and duties of the Minister in relation to the proposed corporations. Here, in this paragraph, we shall only state them in brief. In our view, the powers and duties of the Minister should be—

- (a) to make the appointments to the boards of the public corporations;
- (b) to give directions of a general character as to the exercise and performance by the corporations of their functions in relation to matters appearing to the Minister to affect the national interest, and to ensure that the corporation concerned gives effect to any such directions;
- (c) to ensure that the industry is being run efficiently as a commercial concern, and in accordance with the directives issued by him;
- (d) to authorise the amount of capital to be raised and the terms of issue; and
- (e) to approve of programmes of reorganization or development involving substantial capital outlay to be financed from the exchequer and to approve the capital budget of the corporation before presenting it to Parliament.

Composition of the Boards

3.30 It is clear that a policy-making board composed mainly of part-time directors will not be able to discharge the functions proposed by us for these public corporations. The Chairman of the Corporation will necessarily require the assistance of a few competent full-time directors so that he can devote his time and attention to the broad and important matters of policy without getting bogged down with routine. Although each member of the board should

take an overall view on issues coming up before the board, it will be appropriate to give each full-time director a specific area of responsibility in which he possesses greater knowledge than his colleagues. In a truly functional board every issue that comes up before the board falls within the special responsibility allotted to one or other of the directors. In the smaller undertakings, the executive head of the department, may be the director who bears special responsibility for the subjects dealt with by his department. But in the larger undertakings the full-time director need not be made the head of the department or departments coming in his sphere. A separate executive could be appointed so that the director may remain free of the responsibility for the day-to-day management of the department.

3.31 The functions of the public corporations as proposed in paragraph 3.28 can be divided in the following main fields :

Production

Research and Development

Staff and Industrial Relations

Finance

Marketing and Purchasing

The above functions can be grouped according to the requirements of each case under three or more full-time directors. The subject of staff can be held by the Chairman.

3.32. We have already stated in an earlier paragraph that we are in agreement with the current Government policy of invariably including in the board at least one representative of the controlling Ministry and another of the Ministry of Finance. We, however, feel that Government representation should be restricted to this. In cases, where a Government Department is the sole or the main consumer of the products of the undertaking, it is customary at present to include a representative of that Department in the board of directors. While we are conscious of the importance of consumer consultation, we do not think that the only or the most appropriate way to achieve this is to provide for the representation of the consumer interest on the board. This requirement can be amply taken care of by setting up joint consultative councils. For more or less similar reasons, we are also not in favour of including a representative of the workers of the corporation in its board of directors as we believe

that it will be extremely difficult for any one person to faithfully discharge at the same time the duties and responsibilities of a labour leader as well as a board member of the corporation. But there is a distinct contribution that a person familiar with the problems and points of view of workers can make as a member of the board, and so it may be of advantage to have a non-official who has had good and long experience of working in the trade union organizations as a member of the board.

3.33 It would also be advantageous to have a few part-time non-official members who have proved their outstanding abilities in some areas of industrial, commercial or financial enterprise or administration. This outside expertise would help to counteract the tendency towards self-centredness and will be able to provide an objective, fresh and detached point of view at the meetings of the board. Some of those selected in this manner are likely to be those holding leading positions in private industry. They should be men who have faith in public enterprise and who do not have conflicting business interests with those of the corporation to which they are nominated.

3.34 Thus, a corporation will have a mixed board as its governing body. There will be a full-time chairman with three or four full-time functional directors, two representatives of the Central Ministries and three or four persons from the private sector having established reputations as leaders of industry or allied activities. This is in conformity with the general pattern of organization found among the big industrial and commercial undertakings, both in the public and the private sector, all over the world.

Structure of the Subsidiary Units

3.35 The present position in India is that generally each operating unit in the public sector has a separate legal entity. The multi-unit projects are exceptions to this but even in their case a corporate body has been constituted at only one level. From the legal point of view, therefore, the organizational structure of the public sector in India is not multi-tiered. However, there are a few exceptions. For instance, Acts relating to the food corporations and the warehousing corporations provide for separate corporate bodies not only in the different States but also at two different levels, namely, the Central and the State. The Act also defines the relationship between the corporate bodies at different levels, vesting in the higher body certain powers of direction and general supervision over the bodies created

at the lower level. In the context of our proposal for setting up public corporations to run an increasing number of subordinate operating units, we have to consider the possible alternatives for the organizational structure that should be devised below the level of the integral corporation.

3.36 We have looked at the structural forms adopted in some other countries. Taking these as well as the conditions in our country into consideration, we feel that the following are the possibilities open to us :

- (i) a Public Corporation can be set up by an Act providing also for the organization of subordinate units in the form of public corporations;
- (ii) a Public Corporation can be set up under an Act leaving the form of organization at lower levels to be determined by the corporation itself; and
- (iii) a Public Corporation can be set up at the national level and this corporation can hold shares, in full or in part, in a number of sub-holding and operating units registered as joint-stock companies under private law.

3.37 Examples of the first two types of public corporations are to be found in U.K. and France, and, as in the case of the food and warehousing corporations, in India too. The third type has been adopted and extensively used in Italy. The first alternative mentioned above has generally been adopted in the case of utilities and transport undertakings which require a relatively greater degree of legal sanction for carrying on operations even at the lower levels. We, however, do not favour the first alternative in the case of the industrial and manufacturing concerns because of the rigidity that is likely to result from such a structure. In our view, the management organization at lower levels should be left to be worked out by the public corporations so that the requirements of each industry and undertaking at each stage can be taken fully into account. Since the structure of the subsidiary units is of considerable importance to the success of the corporation and the Government would be keenly interested in it, we feel that the relevant Acts setting up the corporations should provide for consultation with the Government on this question. We, therefore, recommend that in the industrial and manufacturing field the second alternative mentioned above should be adopted.

3.38 As we have indicated in an earlier paragraph, it will perhaps be necessary to retain the company form in certain cases. For undertakings not wholly owned by Government, the company form has certain distinct advantages. It is a convenient form for bringing together the different share-holding interests under the general incorporation laws without having to work out detailed and comprehensive terms of agreement in each case. It also provides a ready organizational device that Government can adopt whenever it has to take over private concerns as a rescue measure or for reasons of policy. With the setting up of the public corporations proposed by us, it will follow as a corollary that the State-owned shares in the companies will be held by the corporation concerned, and not directly by the Government. Such an approach, generally referred to as the IRI formula, has been extensively used in Italy with marked success. We recommend that in sectors where it is necessary to have an element of private participation, including foreign participation, the project should still be set up through the agency of the public corporation, the corporation owning the shares in the company in place of the Government. In this manner undertakings like the Cochin Refineries and Madras Refineries would come under the purview of the corporation set up in the oil sector, and the Fertilisers and Chemicals Travancore Ltd, under the corporation set up in the fertilisers and chemicals sector. Such corporations can even hold the equal or minority shares of the Government in companies falling within their sector.

3.39 We feel that in the case of relatively smaller operating units, there will be hardly any need to provide for an elaborate form of management. In their case it may not be worthwhile to set up a formal management board. The overall responsibility can be entrusted to a single executive (General Manager) who will act as the agent of the public corporation. For the larger units, it will be advantageous to set up a management board or committee under the executive orders of the corporation. It will ensure team work in the working of the top management of the units, and will also enable the public corporation to bring in and benefit from expert outside counsel and influence at the project management level. There will, of course, be no need to have Government representatives on such boards or committees. Government's representation should remain limited to the board of the public corporation. In the case of the larger units, the corporation may find it desirable and necessary to nominate one

or two of its full-time functional directors or heads of key departments on the boards or committees set up at the unit level.

3.40 A rational amalgamation of existing public undertakings can also be brought about in the case of many of the non-industrial public undertakings. The Committee on Public Undertakings (32nd Report, September 1966) has reiterated the earlier recommendations of the Estimates Committee regarding the merger of the State Trading Corporation and the Minerals and Metals Trading Corporation. For many of the reasons that have already been cited in the case of the industrial concerns we feel that the balance of advantage lies in combining these two corporations, and we, therefore, recommend their merger. We make this recommendation both on the grounds of efficiency and economy. If the volume of work is considered unmanageable for a single corporation it appears to us that a better way would be to have two Managing Directors for the two wings that may be created along the existing division of work but within a single company. On the same considerations we also recommend that the management of the two hotels, viz., Ashoka Hotels and Janpath Hotels be brought under the purview of the India Tourism Development Corporation. We observe that this is also consistent with the recommendation made by the Study Team on Machinery of the Government of India that 'the hotel industry requires to be placed squarely under the charge of tourism, and this should include responsibility for Government hotels'*.

3.41 While concluding this chapter, we would like to mention that the form of organization by itself cannot be expected to work any magic in the public sector. It has been our endeavour to suggest such forms and structures as may provide for greater autonomy to the public undertakings without diluting the essential features of public accountability and at the same time promote a proper relationship between the Parliament and the Government on the one hand and the public enterprises on the other. These factors as well as the requirements of flexibility will have to be fully kept in view by the agencies entrusted with the task of drawing up the Acts or other legal documents that give form to the public undertakings.

*Para 3.6.5 of the Interim Report of the Study Team on Machinery of the Government of India.

CHAPTER IV

PARLIAMENT AND PUBLIC ENTERPRISE

4.1 Public enterprises are owned by the State. That they are owned by the State does not mean that they have to be run by the Government. But they are created by investments from the funds of the Exchequer, and must, therefore, be subjected to the accountability to which all activities financed from public revenue must be subjected. There are other reasons too for insisting that public enterprises should function within the four corners of public accountability. More often than not, public undertakings are set up in nationalized sectors of industry, and therefore, function in an environment that provides the advantages of full or partial monopoly. Parliament, Government, and the public must, therefore, be satisfied that they are being run efficiently, that conditions of monopoly do not lead to the exploitation of the consumer or deterioration in the quality of goods and services. In a democracy, parliamentary supervision and control are the essential features of public accountability. Accountability has to be distinguished from the control that the management of an undertaking exercises. But it involves an element of control. It is indeed difficult to define the precise degree of control that accountability involves. It is equally difficult but necessary to balance the requirements of accountability and autonomy and to find the degree of control that will enable Parliament to protect and promote the collective interest which public enterprises must serve and at the same time, enable the undertakings to enjoy the autonomy and initiative that they need to discharge their managerial responsibility.

4.2 The relation between the Parliament and public enterprises has to be considered within the overall equation of the Parliament-Minister-enterprise relationship. Members of Parliament feel a keen sense of responsibility for the efficiency and achievements of public enterprises. They, therefore, want Ministers to answer for the shortcomings and difficulties and failures of the public enterprises. Faced with this detailed and continuous scrutiny by Parliament, the responsible Minister has little choice but to keep himself informed on all matters that relate to a public enterprise including matters of day-to-day administration. This not only generates a flow of detailed

information from the public undertaking to the Ministry, but also results in a marked elevation in the level of decision-making all along the line.

4.3 It is generally agreed that the scrutiny that Parliament exercises over the working of public enterprises should not extend to matters of day-to-day administration. In fact, this principle has been accepted and incorporated in the rules framed by the Parliament and the broad principles laid down by the Speaker to provide guidelines on the 'scope of admissibility of questions' and the rules governing the working of the Committee on Public Undertakings. The main difficulty, however, arises when individual cases have to be interpreted to determine whether they are matters of policy or of day-to-day administration. Indeed, it is extremely difficult to characterize instances, and to prescribe ready and infallible tests. But the task can become somewhat easier if the objectives and the financial obligations of public enterprises have been clearly defined by Parliament itself. In our view, any act or omission of an act which directly affects the fulfilment of these objectives and obligations cannot be described as a mere matter of day-to-day administration. In the same way all matters, except those which have a bearing on any established policy of Government either in relation to that undertaking or the public sector as a whole, should ordinarily be treated as matters of day-to-day administration. We recognize that the tests that we have suggested might still leave some cases on the margin. For instance, it will be very difficult for Parliament to ignore problems and incidents that have aroused wide public interest or individual cases that may have implications and repercussions on matters of policy. These must be regarded as instances that the Parliament Secretariat and the Ministries concerned should interpret in the circumstances of each case.

4.4 The main instruments that Parliament use to supervise and control the working of public enterprises are—

- (i) questions and interpellation of the responsible Minister;
- (ii) debates on various occasions; and
- (iii) examination by parliamentary committees.

The Annual Report and audited Annual Accounts that public undertakings submit to Parliament are intended to enable Parliament to make effective use of these instruments of scrutiny and control.

Questions and Interpellation of the responsible Minister

4.5 Both inside Parliament and outside, there has been a good deal of discussion on the scope of admissibility of questions pertaining to the working of statutory corporations and Government companies. The broad principles governing the admissibility of questions relating to public undertakings have been laid down by the Speaker. These have been stated in a circular of the Lok Sabha Secretariat dated 17th March, 1958. These broad principles as they have been laid down at present do not make any distinction between a statutory corporation and a Government company. The same set of considerations apply to both. According to these principles, questions relating to policy, to an act or omission of an act on the part of a Minister, or a matter of public interest (even though seemingly pertaining to a matter of day-to-day administration or an individual case), are ordinarily admitted as starred questions for oral answer; questions which call for information of a statistical or descriptive nature are generally put down for written reply; and questions which clearly relate to day-to-day administration and tend to throw work on the Ministries and the public undertakings incommensurate with the results to be obtained therefrom are normally disallowed. It is well known that a question can be disallowed if its admission is deemed prejudicial to the safety of the State, and a Minister has the right to decline to disclose information on grounds of public interest.

4.6 We have studied the number and nature of questions that are asked in Parliament about the working of the public undertakings of the Central Government. The number is quite large considering the autonomous nature of these undertakings. To give a few instances, the Indian Airlines Corporation on an average answers nearly 200 questions in a year; the Fertiliser Corporation of India, 80; and the National Coal Development Corporation and the Heavy Engineering Corporation, about 50 each. We have compared this with the position that obtains in some of the foreign countries, and find that the scope of admissibility of questions is much less restrictive here, in India, than in the other countries like the United Kingdom and Canada. In these countries, questions concerning matters that Parliament itself has placed within the competence of autonomous public corporations are not generally admitted. Even when a question of this nature gets admitted or is raised as a supplementary, the responsible Minister makes it clear in his reply that the matter lies within the competence of the public corporation as provided by an

Act passed by the Parliament itself, and that he should not, therefore, be held to account for it. Sometimes, the reply given by the Minister is prefaced by words like "I have been informed by the Board that . . ." We have already pointed out that this is one of the advantages that flow from the setting up of public corporations. Since the corporation is set up by an Act, Parliament determines and decrees the extent of autonomy that it should enjoy. It is, therefore, aware of the area of autonomy and is willing to respect it and eager to ensure that it is respected by the Executive. Thus the Parliament and the Minister find it easier to acknowledge the area of autonomy and remind each other of the need to respect what Parliament has imposed on itself and the Executive. The adoption of the public corporation form of organization will enable the Parliament, the Government, the Minister and the undertaking to benefit from the clarity that public corporations have introduced in other countries.

4.7 We are of the view that the present criteria for the admissibility of questions can be made more specific to exclude the matters that Parliament itself has, by an Act, placed within the competence of autonomous corporations. This will not dilute the essence of their public accountability since the Act of Parliament setting up the corporation has already embodied the autonomy that is consistent with accountability. Questioning the responsible Minister for matters within the powers of the autonomous corporations inevitably results in the Minister entering into the area of day-to-day administration with the attendant possibility of the infringement of the autonomy of public undertakings. We hope that the application of this principle will be extended to the Government companies as well.

4.8 The actual working of the rules and guidelines laid down for determining the admissibility of a question depends considerably on the initiative of the Ministry concerned. It can point out when a question intrudes into the area of autonomy and suggest that it does not qualify for admission. But the facts that we have learnt from the public undertakings and the Ministries show that it is seldom that the Ministry moves for the disallowance of any question. Often questions get admitted and answered even though falling within the area of day-to-day administration. Sometimes, detailed information is gathered and supplied although similar information had been supplied before in a slightly different form to an earlier question. We feel that the Ministries should be more vigilant in ensuring that what Parliament itself has excluded does not reappear due to over-

sight or neglect. They can do this by insisting on the strict observance of the rules governing admissibility. We also suggest that the admissibility of questions should be quickly examined first in the Parliament Secretariat and then in the Ministry. The Ministry should draw the attention of the Speaker to questions that attract the conditions for exclusion that Parliament has already agreed to. They should also check whether similar information had not been supplied in reply to an earlier question. This would avoid waste of effort in the Ministry and the public undertaking concerned.

4.9 We have already referred to the difficulty that may be experienced in determining whether a particular case falls within the area of day-to-day administration, and have indicated a rough and possible test for the purpose. However, what is much more important if the public undertakings are to ensure the effective exercise of the autonomy is the spirit of understanding that both the Parliament and the Government should show to meet the special needs of public enterprises and the respect that Parliament shows to its own decision to invest these undertakings with the autonomy they require.

Debates

4.10 The performance of public undertakings can form the subject of debate in Parliament in several ways; it may be in the shape of elaborate references during the budget debate, or the debate on the President's address; it can be a discussion on the Annual Reports and Annual Accounts of any undertaking; it can be raised as the subject-matter of a half-hour discussion or even an adjournment motion, if the matter is one of sufficient and immediate public importance. There is little doubt that the debate as an instrument of Parliamentary control is bound to be more diffuse and perhaps less pointed and effective than, say, the examination by a Parliamentary Committee. It must also be observed that the value of a debate depends considerably on the adequacy and quality of the information submitted to Parliament. It is in this context, that nature of the Annual Reports and Annual Accounts submitted to Parliament assumes great importance. We have dealt with this subject in detail in later paragraphs in the chapter. The discussions on public undertakings that take place during the budget debate depend on the form and presentation of the budget estimates. We have not gone into this question in detail in the hope that the Study Team on Budgetary Reforms, System of Expenditure Control, etc will examine this question and make appropriate recommendations.

Parliamentary Committee on Public Undertakings

4.11 There is a unique advantage in examination by a Committee of Parliament. In the case of debates in the House or in answering Questions, it is the Minister who speaks on behalf of the public undertaking. It is only during the examination by a Committee that the Chairman and other officers of the undertaking get an opportunity to appear before a Committee of Parliament and explain their point of view across the table. Previously, the working of public undertakings was examined by the Committee on Estimates and on the basis of audit reports, by the Committee on Public Accounts. In May 1964, a Joint Committee of both Houses, viz., the Committee on Public Undertakings which took over the exercise of 'functions vested in the Committee on Public Accounts and the Committee on Estimates in relation to the public undertakings' brought within their purview. The rules of procedure followed by the Committee on Public Undertakings are for all purposes similar to those of the Committee on Estimates. In the UK, the terms of reference of the Select Committee on Nationalized Industries have not been reduced to writing. But here in India, the scope and functions of the Committee have been defined in the resolution of the Houses that set up the Committee. It is to examine the reports and accounts including those of the Comptroller & Auditor-General on the public undertakings and 'to examine, in the context of the autonomy and efficiency of the public undertakings, whether the affairs of the public undertakings are being managed in accordance with sound business principles and prudent commercial practices*'. The items specifically excluded from the Committee's purview are—

- (i) matters of major Government policy as distinct from business or commercial functions of the public undertakings;
- (ii) matters of day-to-day administration; and
- (iii) matters for the consideration of which machinery is established by any special statute under which a particular public undertaking is established.**

4.12 Since the Committee on Public Undertakings was set up in May 1964, they have brought out 40 reports. Of these, 9 are reports of action taken on earlier reports of the Estimates Committee. Of the remaining 31 reports, 3 may be characterised as horizontal studies

*Rule 312 of the Rules of Procedure and Conduct of Business in Lok Sabha—
Rules relating to Committee on Public Undertakings.

**Rule 312A *ibid.*

(these are on the planning of projects, on townships and factory buildings and materials management), and 8 relate to the working of public undertakings in Kerala (this includes 1 horizontal study). Thus, there are altogether 20 reports which relate to the Central Government undertakings. These cover 15 undertakings, since 5 of the 15 reports relate to the HSL and its constituent units and 2 to the units of the IOC. The undertakings that have been so far selected by the Committee reveal a natural tendency to give priority to the examination of larger units. Considering that the number of Central Government undertakings has already reached the environs of 70, the inference is inescapable that the Committee would not be able to examine the smaller undertakings with a frequency greater than, say, once in 15 years. Even in the case of the larger undertakings, it appears that it will be difficult to maintain a frequency of more than once in 5 years.

4.13 There is no doubt that the work of the parliamentary committees has been most useful, especially in the matter of the control of capital expenditure. The formation of a special Committee on Public Undertakings has been particularly welcomed by the managements of public undertakings since it has given them an opportunity to appear and explain things before a Committee of Parliament. It is difficult to say whether the method of inquiry that the Committee has adopted will continue to be the only method that the Committee would employ in all cases. It may well be that the method that is now being followed has been chosen since it was considered the best method that could be employed in the initial years. At present, there is considerable reliance placed on eliciting information through detailed questionnaire. The managements of many public undertakings have observed that the meticulousness with which such detailed questionnaires emanating from a Parliamentary Committee have to be answered often imposed a heavy burden on them and sometimes resulted in the inquiry gravitating towards the area of day-to-day management.

4.14 A review of the position in countries that have democratic forms of Government reveals that except for Italy where Parliament's role in the management of public enterprises is very limited, almost all countries have provided for a well-defined form of Parliamentary control including examination by parliamentary committees. In the USA, Congressional Committees make little distinction between Government corporations and the Departments of the Administration.

In France, there is a very comprehensive system of examination by permanent commissions and special committees of both the chambers of the French Parliament. The system that prevails in the UK bears close similarity to what obtains in India. It is, therefore, easier for us to draw useful illustrations from the practices in the United Kingdom. Although the scope of inquiry by the UK Select Committee on Nationalized Industries was left to the good sense of the Committee, it was made clear during the debate that preceded its constitution that the Committee should not trespass on matters of day-to-day administration or on matters of major Government policy. The Select Committee in the UK has not considered it necessary to issue detailed questionnaires as a preliminary step to examination. The inquiries of the Committee are conducted on different lines. The Committee first selects a few subjects and frames the issues that it would like to take up for examination. The Chairman and officers of the concerned undertaking then prepare and submit memoranda on the issues. The inquiry then takes the form of 'across the table' discussions with the Chairman and the Officers, and the discussions are conducted on the basis of the memoranda that have already been submitted. Generally, the UK Select Committee takes up one subject for examination during the course of a year. It examines the representatives of the undertaking, the controlling Ministry and the Treasury separately and does not undertake any on-the-spot study tours. The more important aspects considered by the UK Select Committee, according to its former Chairman, are said to be*—

- (i) the attitude of the Chairman and the Board on the question whether they were carrying out a public service or doing a commercial job;
- (ii) the degree of ministerial interference; the direct effect of this upon the financial accounts and results; and the indirect effect through blurring the lines of responsibility;
- (iii) the provision of and continuance of uneconomic services; and
- (iv) the control of capital investment.

4.15 In India, the reports of the Committee on Public Undertakings show that the Committee has been keenly interested in the control of capital investment. In other matters, the Committee have

*Sir Toby Low: "The Select Committee on Nationalized Industries," *Public Administration*, Vol. 40, Spring 1962.

upto now tended to favour the laying down of rules and regulations and achieving uniformity in various matters such as service rules and conditions, expenditure on township, scales of accommodation etc. The Committee do not appear to have as yet directed their inquiry towards the area of ministerial interference which has been a very important area of inquiry in the UK.

4.16 We are of the view that the examination by the Committee will be much more intensive and comprehensive if the Committee on Public Undertakings takes up a group of undertakings falling within one area of enterprise and brings out one consolidated report on that public sector industry as a whole. For instance, instead of taking up, say, the individual refineries and allied undertakings in successive years, the Committee could take up the Oil and Natural Gas Commission, the Indian Oil Corporation, the Engineers India Ltd. and Cochin and Madras Refineries for concurrent examination. It may be mentioned that this would automatically be brought about with the creation of the multi-unit corporations proposed by us. We make this recommendation for the following reasons:

- (i) It will enable the Committee to achieve a speedier coverage of the undertakings than they would otherwise be able to do.
- (ii) It will avoid having to cover the same ground successively with different undertakings and yet enable a simultaneous and a comparative appraisal of the performance in identical periods of review.
- (iii) It will also mean that the inquiry will move away from matters of day-to-day administration and gravitate to those of overall general importance.
- (iv) One consolidated report will enable Members of Parliament to acquaint themselves better with the problems on which Parliament should focus its attention.

4.17 It was expected that with the coming into being of the Committee on Public Undertakings the working of public enterprises will be examined only by one Committee. However, in the course of the examination of certain Ministries and general subjects other Parliamentary Committees too are still going far into the area of public enterprise. We feel that with the setting up of a special

Committee on Public Undertakings the scope and functions of other Committees of Parliament may be reviewed and redefined to avoid overlapping and duplication.

Submission of Annual Reports and Accounts

4.18 Every statutory corporation is required under its own Act to submit an Annual Report on its activities, policy and programmes to the Government. This report is expected to include an account of the activities of the year that has ended as well as an indication of the activities and programmes that are to be undertaken in the next year. A copy of such a report together with the report of the auditors is laid before both Houses of Parliament. Section 619A of the Companies Act makes a similar stipulation in the case of the Government companies. These statutory obligations cast on public undertakings provide the most effective method of submitting regular information to Parliament.

4.19 An analysis of the annual reports submitted by the public undertakings reveals that some of them are already giving comprehensive information on their operations and future programmes. Details are no doubt necessary. But the manner of presentation should not be such that the wealth of details obscures the main items which should catch the eye of the Members. Thus, there is room for greater selectivity even in these reports and greater efforts to present the report in a manner that enables Parliament to focus its attention on the principal items. A majority of the annual reports give only sketchy information and often such information as is given is not even properly indicated. We feel that there is insufficient recognition of the fact that one of the main purposes of the annual report is to enable Parliament to make an assessment of the efficiency with which an undertaking is being run. We have examined the guidelines issued in this respect by the Department of Company Law Administration in 1962 and feel that they are a little too general. These guidelines do not prescribe any specific form or suggest the necessary indicators that may be adopted for reporting performance to Parliament.

4.20 We suggest that the Bureau of Public Enterprises, in consultation with the Ministries and public undertakings concerned should work out a model form for the annual reports. The Bureau should also prepare standard operational indices that could be adopted by

the different public undertakings to provide essential information in a readily intelligible form.

4.21 In our view, the following are the principal points that each annual report should contain:

- (a) Information about the adequacy of the quantity and quality of output and the reductions being brought about in the real cost of the product.
- (b) Information relating to the utilisation of the principal ingredients of production, *viz*, labour, materials and installed capacity. For this purpose, suitable non-financial indices can be employed with advantage, like expressing production in terms of output per manshift or goods produced per unit of raw materials used or the effective utilization as a percentage of installed capacity.
- (c) A comparative idea of performance by indicating it over different periods of time, between different parts of the undertaking, between one undertaking and another and in relation to similar enterprises abroad. The use of standard indicators is essential in all this.
- (d) A brief report on future plans, indicating the extent of demand for the product proposed to be met, the variations in the quantity and quality of supply and the steps planned to reduce the cost of the product.
- (e) A brief summary of the past operational results with comparisons of the results achieved during a specified number of years. The object of such a summary should be to reveal long-term trends.

4.22 The adoption of a common pattern of reporting and of standard operational indices will have the following advantages:

- (i) It will make it easier for Members of Parliament to acquaint themselves with the activities and problems of undertakings and to follow comparative and subsequent references;
- (ii) it will help Members to understand the salient features of the operations of the enterprise, that must concern the management themselves; and

- (iii) it will also serve to attract Parliament's attention and consideration to larger issues and away from matters of less importance.

4.23 Besides the Annual Reports that individual undertakings bring out, the Bureau of Public Enterprises brings out a consolidated Annual Report on the working of the industrial and commercial enterprises of the Central Government. To a large extent, the considerations that we have outlined in earlier paragraphs relating to the reports of individual undertakings hold good with even greater force for this consolidated report. There is yet another problem that a consolidated report should take into account, viz, the need for a proper classification of undertakings. Without such a classification, the consolidated review may not succeed in giving a fairly accurate indication of achievements in different areas of public enterprise. At present the Bureau divides the undertakings into five major categories: the Hindustan Steel Ltd. (HSL), running concerns other than HSL, promotional and developmental undertakings, undertakings under construction and financial institutions; the HSL is discussed separately from other running concerns. We feel that this classification leads to a lumping together of the figures of performance of widely differing public undertakings. A clear picture of each segment of the public sector does not get reflected in this classification. We, therefore, recommend that in preparing the consolidated Annual Report on the working of public enterprises, the Bureau of Public Enterprises should adopt a more systematic classification of undertakings and evolve and use standard indicators for each major area of enterprise.

4.24 We would like to stress here the need for supplying Parliament with precise and full information on the working of public enterprises. The effectiveness of the supervision by Parliament, by whichever instrument it is exercised, very largely depends on the quality of the information that is made available. The same considerations on which we have suggested the preparation of informative annual reports on a standard pattern demand that in supplying information to Parliament, whether in response to questions from Members or questionnaires from the Committee on Public Undertakings, the attempt should be to give full and imaginative replies and not literal and sketchy answers that leave a feeling of dissatisfaction. When Parliament feels that undertakings and Ministries are themselves keen to keep Parliament fully informed, when

Members are satisfied that there are adequate opportunities for obtaining information with regard to public undertakings and when these opportunities are fully utilized, the debates in the House will be at a very high level. They will then be regarded as more purposeful, as highly profitable to the House, the Ministry and the undertaking.

CHAPTER V

GOVERNMENT AND PUBLIC ENTERPRISE

1. Government Control

5.1 The principal objective common to all public enterprises is to engage in economic activities in the collective interest. Since the Government is ultimately responsible for this as well as for giving effect to the country's plan for economic development, it is evident that a proper system has to be devised for the coordination and control of these enterprises by the Government. On the other hand, public enterprises have to be managed according to progressive, modern business principles if they are to achieve their commercial objectives for which they require the flexibility and initiative possessed by private enterprise.

5.2 The problem is to secure the best possible balance between these two conflicting considerations. Formally, this is sought to be achieved by laying down a division of functions between the Government (mainly, the controlling Ministry) and the public enterprise. The general principle adopted is to reserve such powers to Government as are required by them to determine questions of policy, see that the programmes of the public enterprises conform to the Plan and ensure that the enterprise is being run on commercial lines or in accordance with Government directives; and subject to this, invest the management board of the enterprise with the powers necessary to carry on the day-to-day administration on business and commercial principles, and more generally, with the powers necessary to achieve the prescribed objectives and obligations.

5.3 We have examined, both in respect of the statutory corporations and the Government companies of the Central Government, the powers reserved to the Government and those vested in the governing bodies of these enterprises. An analysis of the relevant Acts and Articles of Association reveals that generally powers have been reserved to the Government in the following matters:

- (i) appointment of the Chairman and Members of the governing Board;
- (ii) appointments, or approval of appointments, to posts carrying salaries above a certain level and to the post of Financial Adviser/Financial Controller;

- (iii) capital expenditure above a certain amount;
- (iv) sanction for upward variations in estimates of over 10 per cent, in cases where the DPR with detailed estimates has already been approved by the Government;
- (v) matters connected with borrowings, investments in securities, distribution of profits etc;
- (vi) appointment of the auditors; except in statutory corporations in which the Comptroller & Auditor-General has been designated as the auditor;
- (vii) the power to issue such directions or instructions as may be considered necessary to ensure that the conduct of business of the undertaking is in conformity with the policies laid down by Government; and
- (viii) in a few cases, rules relating to the terms and conditions of service of employees of the public undertaking.

5.4 We have observed that there is no significant difference in this respect between the statutory corporations and the Government companies. What has been stipulated in the Acts in the case of the statutory corporations has been, more or less, written into the Articles of Association of the Government companies. A comparative statement of the powers reserved to Government in the case of the Central Government undertakings that have furnished information in this respect is at Annexure II. There are quite a few exceptions to the general picture that has been outlined in the previous paragraph. In certain companies like the FACT and the Cochin Refineries, which are based on partnership with private capital, the Articles of Association do not provide for the issue of directives. Another variation that can be observed is in relation to the delegation of powers to the Chairmen, the Managing Directors and the General Managers. Though in the case of most companies powers are delegated by the Board, there are some companies in which powers are delegated to these functionaries by or with the approval of, the Government. The need to secure prior Government approval for service rules has been provided for only in respect of a few undertakings like Air India, IAC and Hindustan Photo Films.

5.5 There is a definite lack of uniformity in the kind and extent of powers reserved to Government *vis-a-vis* different public undertakings. The Parliamentary Committees have often commented on this situation and recommended that certain uniform principles to guide decisions on the reservation of powers should be laid down.

In their reply to these recommendations, Government have taken the stand that certain variations are inevitable because of the differences in the size and character of the undertakings. This is largely true, but we find from our examination that the existing variations cannot always be explained on a rational basis. We believe that it should be possible for Government to lay down the principles that should govern the reservation of powers. We suggest that a comparative review of the powers conferred on public undertakings to make appointments, incur capital expenditure etc should be undertaken with a view to removing anomalies and ensuring that management boards of undertakings that are similar in size and nature have the same degree of autonomy.

5.6 There is also a degree of confusion about the division of responsibilities between the Government and the enterprise in the matter of public accountability. This is particularly so in the case of Government companies. In their report* on the Shipping Corporation of India (a Government company), the Estimates Committee observed that 'there are many misconceptions with regard to the nature of responsibilities attaching to Government in relation to the public undertakings and the nature and extent of checks and controls that have to be and can be exercised over them by the Government'. The Estimates Committee recommended a comprehensive review to establish a sound and well-defined relationship between the companies and the Government. Similar observations regarding the lack of a clear division of powers have been made by the Committee on Public Undertakings in their 3rd Report on the Shipping Corporation of India. These are reproduced below:

"There is no clear cut demarcation between the matters on which the Corporation will come to its own decision and those on which it shall seek prior approval. Though the Corporation is not required to refer to Government matters other than those enumerated in Article 34 of the Articles of Association, in practice it has been having discussions with Government on many other matters and not coming to decisions independently. In the opinion of the Committee, having discussion with Government has got the same effect as referring matters to Government for approval. The matters on which prior approval of

* Estimates Committee 38th Report and 135th Action Taken Report (2nd Lok Sabha) on Shipping Corporation of India—(April, 1959 and April, 1961 respectively).

Government shall be taken are enumerated only with a view to allowing the Corporation to take the initiative and come to its own decisions in respect of the other matters. The Corporation appears to have been looking up to Government for guidance in respect of many matters on which it was not necessary for it to do so."

5.7 We have already expressed our view that one of the advantages of the public corporation form of organization is that it is based on a precise and statutory definition of the relationship between the Government and the undertaking, and provides for a clear-cut demarcation of responsibilities between them. We recommend that the need for such a clear demarcation should be kept fully in view while drawing up the relevant provisions in the statutes establishing the proposed public corporations, and while framing rules or executive orders under these statutes.

5.8 We have, however, attempted to make a detailed analysis of the important aspects of the powers reserved to Government and those conferred on the boards. Our observations and recommendations in this regard will relate mainly to the appointments to the board and certain top management posts in these undertakings, the power to incur capital expenditure, provisions relating to delegation of powers to the chief executives, and the issue of Government directives. In the following paragraphs we shall examine these questions purely from the point of view of the bearing that they have on the relationship between Government and the public enterprises.

Appointments to the Board and Senior Posts

5.9 Since public enterprises are established on the basis of public accountability, the power to make appointments to the management boards has to be vested in the responsible Minister. Indeed, it is one of his most important prerogatives and responsibilities. As we have already pointed out, a very high proportion of board memberships is now held by Government officials on a part-time basis. In many cases, a Secretary of the Ministry/Department is also included in the board. There are quite a few cases of the Secretary of the Ministry being nominated as the chairman of the board, despite the fact that Government itself has taken a definite decision against this practice. The Mazagon Dock, Central Warehousing Corporation, Hindustan Teleprinters, Mogul Line, Hindustan Shipyard and the National Industrial Development Corporation are all cases of this

kind. The Parliamentary Committees have repeatedly recommended the discontinuance of this practice. We feel that the presence of the Secretary or a large number of representatives of Ministries on the board results in its acquiring the character of a Government committee rather than that of an autonomous board of management. Nor is it conducive to the establishing of a proper relationship between the Government and the undertaking. We recommend that a Secretary or other officer of the Ministry should not be made the chairman of a public undertaking, and that a Secretary of a Ministry/Department should not be included in the management board of the undertaking. We also recommend that Government should not be represented by more than two representatives, one representative each of the controlling Ministry and of the Ministry of Finance should be appointed to the board.

5.10 Besides the appointment to the board, Government also appoint or approve the appointments to the posts of financial advisers/financial controllers, and other posts carrying a salary above a certain limit. These posts are generally those of General Managers of plants and executive heads of departments. We suggest that all appointments below the board level should be made by the board itself. This is highly necessary to ensure that these officers, who are in fact the employees of the public undertaking feel fully responsible to their board, and not to some other appointing authority. In the past, there have been instances of officers looking up to authorities outside the board. This has not been conducive to the development of an *esprit de corps*. In fact, it has even led to friction in the top echelons of the undertaking. We will now turn to the appointment of the Financial Adviser. His appointment direct by the Government gives the impression that his presence in the undertaking is as a kind of watch-dog on behalf of the Government to check the propriety of the financial transactions etc. This is not conducive to good management and unduly emphasises the check and control aspects of the finance organization of the undertaking. We recommend that in the case of financial advisers/financial controllers, the appointment should be made by the board but in consultation with the Government.

Powers to Incur Capital Expenditure

5.11 Since public enterprises are financed wholly or mainly by public funds, powers have to be reserved to the Government for approving their large capital expenditure programmes. At present,

the level above which capital expenditure cannot be incurred by a public undertaking without the prior approval of Government varies from undertaking to undertaking. In the case of the larger undertakings like Hindustan Steel, Heavy Electricals and Heavy Engineering Corporation, the boards have the power to sanction capital works upto Rs. 50 lakhs; it is less in some other cases, e.g., for Hindustan Aeronautics it is Rs. 30 lakhs, for Hindustan Machine Tools and National Buildings Construction Corporation it is Rs. 25 lakhs, and for the National Minerals Development Corporation and National Projects Construction Corporation it is Rs. 10 lakhs. The variations are largely justifiable on the grounds of the size and nature of the undertakings, but there are a few cases where the board's powers in this respect are unreasonably low, especially when compared to some other undertakings of a similar or smaller size. For instance, the National Seeds Corporation can approve a proposal involving capital expenditure upto Rs. 40 lakhs while the limit for much larger undertakings is much less. For instance, in the case of Hindustan Aeronautics it is only Rs. 30 lakhs, for Hindustan Shipyard Rs. 20 lakhs and for Bharat Electronics Rs. 10 lakhs. The limit of Rs. 15 lakhs laid down in the Act setting up the air corporations also appears to be very low. The Third Plan document stated that the powers of the boards for sanctioning capital works would have to be considerably enhanced as the limits stipulated in the case of some of the big undertakings were too low.

5.12 We feel that the existing position should be examined with a view to making an upward revision in the case of the larger undertakings. With the setting up of the public corporations proposed by us there will be still greater scope for enhancing the powers of the governing boards in the matter of sanctioning capital works.

5.13 Where Government sanction the Detailed Project Report with detailed estimates the Boards acquire full powers to incur expenditure. But cases where this has been done have been rare with the result that undertakings have had to go up to the Government for approval of each component of the project construction programme. Moreover, in case the sanctioned estimates have to be revised upwards by more than 10 per cent, the whole case has to be re-submitted to Government for re-scrutiny in detail. It must be pointed out that proposals for obtaining Government approval to increases in estimates are normally moved during the construction phase, and delays in going ahead with the job result in the holding up of work on other components of the construction programme too.

Under such circumstances time is of the essence. The mere cessation of work itself might cost much more as a result of the delayed realisation of benefits than any possible saving effected as a result of comprehensive re-examination. We feel that the range of 10 per cent could be raised to 15 per cent in view of the fact that there is almost always a general increase in prices between the time the DPR is prepared and the sanction is issued and work taken in hand. Moreover, the costs often go up for quite obvious reasons such as a change in the source of external aid or a manifest rise in the price of a major portion of the equipment required. In such cases, we suggest that the whole proposal need not be re-examined; scrutiny should be confined to the specific item or element of the proposal in which the increase had occurred and the possible effect of such an increase on the profitability of the project.

Delegation of Powers

5.14 In most cases, it is the board that delegates powers to the Managing Director or General Manager. But in a few cases such as Hindustan Aeronautics, Bharat Earth Movers, Mazagon Docks etc, the Articles of Association provide for powers to be delegated by the President. In the case of the Hindustan Steel, the powers delegated by the Board to the General Manager or the Financial Adviser are subject to the approval of the President. There can be no doubt that these provisions are an unnecessary and undesirable interference with the management functions of the board. *We cannot think* of any valid reason for fettering the discretion of the board in delegating powers to its principal executives. It appears that some of the undertakings (Heavy Electricals is one), whose Articles of Association contained such provisions, have since amended them to achieve conformity with the general pattern. We recommend that Government should not reserve any powers in this respect but should allow the board full freedom to delegate powers to its executive officers. The Government will of course receive information about any delegation that the board may decide upon, and they can always make a suggestion or give a directive to the board in case they consider such a directive necessary and desirable.

Issue of Directives

5.15 In view of the fact that public undertakings are to be operated in the collective interest and within the framework of a national economic plan, the power to issue directives must be vested in the

Government. In actual practice, however, this power is very rarely used. According to information furnished by the Ministries and the public undertakings in this respect, only two directives seem to have been issued in the last two years, one to the Life Insurance Corporation and the other to the Indian Drugs and Pharmaceuticals Ltd. The main reason for this appears to be that the controlling Ministry is able to have its own way through more informal methods. In fact, there are a variety of ways in which the Minister can influence the decisions of a public undertaking without issuing a formal directive. The board is set up by the Ministry, and aware of this fact. The Minister can normally exercise a good deal of influence and even control through discussion, negotiation and pressure. The board will not be irresponsive to his counsel or ideas. But the Minister must respect the limits that the autonomy of the board imposes on him. He has the right to issue a directive when he feels that the national interest demands that the board should not allow its judgement to be determined by purely commercial considerations. But every time he suggests that the board should set aside commercial and economic considerations and act in a manner that national interest, as interpreted by him, requires, the Minister must be willing to issue a formal directive if the board does not agree with his suggestions. The Minister has to be willing to issue a formal directive since he should not exercise power without taking public responsibility for his intervention. Any other course of action will be unfair to the undertaking and unfair to Parliament. We, therefore, recommend that any suggestion from Government to a public undertaking asking it to act in a manner other than that dictated by economic grounds should be in the form of an open directive and should be duly brought out in the Annual Report of the undertaking concerned.

Informal Control

5.16 We have covered so far only the formal elements of Government control. We have no doubt that certain powers have to be vested in the Minister for the regulation of public enterprises; e.g. the power to appoint and remove board members, to give the undertaking open directives and to approve its long-term plans and capital expenditure programmes. The problem arises from the fact that armed with these powers the Minister and the Secretary may, if they so wish, exercise a degree of control far in excess of that envisaged by the statutes or Articles of Association and reduce the auto-

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mony of the public enterprise to a mere fiction. We have already referred to the remarks made by the Estimates Committee (1st Lok Sabha) in their 16th Report that the public undertakings had become adjuncts to Ministries and were being treated more or less on the same lines as any subordinate office or organization. To an extent, such a situation is unavoidable when a developing country has to enter new fields of industry as a pioneering activity. Under such circumstances, the persons entrusted with the task of running the enterprise are themselves new to the job and are not able to speak with the authority which comes naturally to persons who have risen to the top from within the industry or the enterprise itself. This sometimes leads the senior officials of the Ministry to entertain the feeling that they know better and so attempt to substitute, in informal ways, their own judgment for that of the management. The fact that open directives are issued rarely also suggests that the Ministry is able to secure compliance with its wishes through informal means.

5.17 We have had this consideration in mind while suggesting that a Secretary or a large number of Ministries' representatives should not be appointed to the management boards. We have endorsed the existing practice that one representative of the controlling Ministry and another of the Finance Ministry should be appointed as part-time members to the board because it enables a greater delegation of powers to the board than would otherwise have been possible. But if the presence of the representatives is to be really fruitful, it is necessary that they have the authority to speak on behalf of their Ministry during the board meetings. From our discussions with the heads of many public undertakings we have gathered that many proposals adopted by the board with the full concurrence of the representative of the Ministry were later re-examined in the Ministry even though its representative had agreed to it during the board meeting; in many cases, the same official adopting a contrary view when the proposal went up to the Ministry. Such practices take away much of the value of this arrangement. While we agree that it cannot be possible in all cases for a representative to commit his Ministry to a proposal, we feel that the representatives of the Ministry should be able to have consultations and formulate the views of the Ministry on most matters appearing on the agenda even before they go to the meeting. In cases where the matters involved are such as take time, the Ministry can always ask for another meeting in two or three weeks. We feel

that if a determined effort is made at the Ministry, its representative can generally be in a position to speak on behalf of the Ministry at the meetings of the board. This might be possible only if the officer is a sufficiently senior person. We, therefore, recommend that the Ministry's official appointed as a part-time member of the board should not be below the rank of a Joint Secretary. The position would further improve if the Ministry laid down the broad policy on important issues and reduced insistence on submission of individual cases for Government approval.

5.18 Another important factor in the Government-undertaking relationship from the point of view of informal control is the deputation of serving Government officials to the executive posts in the public undertakings. Trained and habituated as civil servants are to implementing ministerial directions, it is difficult for them to take ministerial advice less seriously than Government orders. Further, being junior in service to the senior officials of the Ministry, it is not possible for them to disregard official advice howsoever informally given. Shri Asok Chanda, in his book on Indian Administration (1958), has remarked that 'it is not sufficient to enjoin that directions of Government should be issued in writing to the corporations; it is more necessary to ensure that the officials in charge are not influenced by the views of their official superiors in the central ministries on whom their advancement largely depends. It is imperative that they should be placed beyond the pale of such direct or indirect influence; this can only be done if they were to retire and sever their connection with their parent service.' We fully recognize the force of these arguments and the soundness of the principle. But in the circumstances that obtain today, it may not be possible to implement this principle at all levels. At higher levels, however, the Government officials eligible for the top management posts will ordinarily be nearing the end of their service. It should not be difficult to make their transfer to the public sector irreversible, especially if the salary and perquisites in the public sector compared favourably with those prevailing in the parent Government service. We, therefore, recommend that the top management posts should be filled by deputationists only when there is no other suitable alternative. We also recommend that where officers have to be appointed, only those who have experience of working in public undertakings or similar establishments should be selected for top management posts like those of the chairmen or full-time board members of undertakings, and that officers selected for appoint-

ment to these posts should be asked to sever their connections with the parent service on such appointment. A similar course of action should be adopted in respect of the posts of General Managers and Financial Advisers of the larger units.

5.19 The status accorded to the head of a public undertaking has an important bearing on the working relationship between the undertaking and the controlling Ministry. In India, at present the Secretaries are in almost all cases manifestly senior and superior to the heads of public undertakings. In fact, the Government order* relating to the salaries of top management posts in the public sector lays down that an officer cannot draw a salary higher than that of a Secretary unless he resigns from Government service. The existing position needs to be reviewed in the light of our proposal for setting up larger integral public corporations. The comparative position in the United Kingdom, where the form of public corporations has been generally adopted, is that the chairmen and even the vice-chairmen of the larger public corporations draw substantially higher salaries than the highest paid civil servants in the Government. This pattern, we feel, has certain advantages: first, a senior civil servant who has had the requisite prior experience will be more willing to render service in the public sector even if it means disconnection with the parent service; and secondly, being senior in service and status to the Secretary he will be in a better position to withstand the informal suggestions and pressures that emanate from the Ministry. We, therefore, recommend that the chairmen of the proposed integral corporations should be accorded a status consistent with the requirements and importance of their functions, even though it may mean a status higher than that of the senior-most permanent civil servant. We feel that in the case of the larger integral corporations that may be created, the chairman should be given a status equivalent to that of the Governor of the Reserve Bank of India.

Effectiveness of Control

5.20 In the preceding paragraphs we have considered the factors and influences, formal and informal, that lead to excessive and undue control by Government. We must now consider the degree of effectiveness with which Government control is exercised in areas where it is vital and necessary. In general, it depends upon the

*Cabinet Secret's O.M. No. 72/45/CF-65, dated 13th October, 1965.

effectiveness and clarity with which Government lays down the broad policy in such areas and the concrete steps taken to secure the implementation of that policy. The Parliamentary Committees have pointed out several instances, e.g., in their reports on the Oil & Natural Gas Commission and the National Buildings Construction Corporation, in which serious shortcomings in the working of some of the public undertakings came to Government's notice only after a considerable lapse of time or when some external agency drew attention to what had happened.

5.21 There are also other instances of the failure of essential control. These are instances in which, despite the importance of the issues involved, Government have either contended themselves with issuing suggestions or have been unable to secure effective compliance with the instructions issued by them to public undertakings. Very often such a situation is conveniently countenanced in the name of the 'autonomy' of the public undertaking. In our view, this is a mistaken notion of autonomy. The instances given below are illustrative:

- (i) Government have addressed the public undertakings on several occasions emphasising the need for making adequate financial and accounting arrangements and for setting up cost accounting units and management accountancy organizations. Despite these suggestions and exhortations a number of undertakings have not taken effective steps in this direction, even though this serious shortcoming has been repeatedly pointed out in the Audit Report (Commercial). An examination of the circulars issued over a period of the last ten years shows that Government have confined themselves to making suggestions. In such an important matter Government should have ensured that the consultancy services required by the public undertakings in this respect were available, and given them specific directions instead of merely asking for the action taken to be intimated to Government 'in due course'.
- (ii) As observed by the Committee on Public Undertakings (8th Report, 1965), there have been large variations in the scales of accommodation provided to the employees of different public undertakings. It has been pointed out that no proper standards were fixed by Government till

1960, and that even after they were prescribed by the Ministry of Finance in 1960, they were not followed or adhered to by all the public undertakings.

- (iii) The position with regard to the controlling of inventories is similar. We had asked the Ministries to indicate the steps taken by Government to reduce the huge inventories built up in the public undertakings. In reply, many Ministries have stated that inventory control is a purely management function. While we agree that the management has the responsibility for controlling inventories, we feel that in the context of the locking up of public funds in unduly large inventories, a clear responsibility attaches to Government for ensuring that all concrete steps are taken by the public undertakings to improve the position. The Bureau of Public Enterprises has only recently set up a team of technical officers to scrutinise the inventories and examine their reasonableness.

5.22 We feel that Government should free the public enterprises from a large part of the control they are exercising at present and concern themselves mainly with its larger aspects. By reducing the spread of Government control, which appears to be much larger than it need be, Government will be able to focus attention on vital and strategic points, and thereby, ensure a more effective compliance with their policies and directives. This can be brought about only if there is a change in the attitude of the Minister and his senior officials. In fact, it will require a scrupulous and punctilious self-restraint on the part of the Minister. As the attitude of the Minister depends largely on that of the Members of Parliament towards the autonomy of the enterprise and towards the role of the Minister, it appears, equally necessary for the Members to impose scrupulous restraint on themselves. We feel that this is essential if public undertakings are to acquire the requisite measure of autonomy and the ability to stand firmly on their own feet.

2. Government Machinery for Coordination and Control

5.23 This subject mainly falls within the purview of the Study Team that the Administrative Reforms Commission have set up to examine the machinery of the Government of India and its procedures of work. We have had the benefit of going through the relevant sections of the interim report submitted by the Study Team. We

shall confine our examination to the limited area relating to the public undertakings and the machinery that the Government require to deal with the administrative responsibility for this area.

5.24 With the rapid expansion of industry and the public sector, the creation of new ministries to deal with the increased amount of work in this field was inevitable. What was previously being looked after by the single Ministry of Commerce and Industry is now divided among several Ministries like the Ministries of Industrial Development and Company Affairs; Commerce; Steel, Mines and Metals; Petroleum and Chemicals etc. During this period the number of public undertakings also increased considerably. This led to problems of coordination and a number of Government agencies came to be concerned with different aspects of work relating to the public enterprises. Before the creation of the Bureau of Public Enterprises in March, 1965, the Project Coordination Division of the Ministry of Industry was responsible for coordinating important policy matters relating to all public undertakings; it now deals with only those issues which do not involve policy decisions. In addition to the Bureau and the Project Coordination Division of the Ministry of Industrial Development and Company Affairs, a number of other agencies are also concerned with the public sector work e.g., the Management Division (COPP) and the Industry Division of the Planning Commission, the Department of Coordination in the Ministry of Finance and the Ministry of Home Affairs (for work relating to the Industrial Management Pool). We are of the view that much of the existing multiplicity in this respect can and should be reduced by entrusting this work to an expanded Bureau of Public Enterprises.

The Functions of the Bureau of Public Enterprises

5.25 An office memorandum dated April 5, 1965, defined the functions of the Bureau as follows:

- (i) to provide a central point of reference, consultation and advice on important aspects of management of public enterprises;
- (ii) to explore all avenues of economy in the capital costs of the projects;
- (iii) to devise steps to improve the productivity and profitability of the enterprises;

- (iv) to review periodically the working of individual units as also to undertake examination of selected areas of their performance; and
- (v) to present to Parliament or Government agencies reports and reviews of their working.

5.26 The Study Team on the Machinery of the Government of India have included in their Interim Report a list of functions to be performed by an expanded Bureau of Public Enterprises. They have considered this question in the overall context of the need for greater coordination in the field of industrial development, and have suggested 'a nodal agency from which effective leadership and initiative can flow in overall matters relating to industrial problems'. Our recommendations are limited mainly to the role and the functions that should be assigned to the Bureau of Public Enterprises.

5.27 We feel that the basic nature of the Bureau should be that of a service agency; one of assistance to the public enterprises and the Ministries concerned rather than that of proctorial supervision of their deficiencies and failures. It is important in particular that the Bureau does not become yet another authority for indirect control of the enterprises. If the Bureau takes on such functions, it would reduce much of its utility. The assumption of such a role would be wholly inappropriate as the primary responsibility for the efficient management of the enterprises rests on the enterprises themselves, and that for supervising their working and accounting for their performance to Parliament on the Ministries concerned. While the Bureau with its specialised experience can be of great assistance to the Ministries as well as the enterprises in discharging these difficult tasks, it would be harmful to duplicate the authorities responsible for these functions. Such duplication could only lead to diffusion of responsibility and irksome interference. It is in this light that we have considered the functions that should be performed by the Bureau. The list drawn up by the Study Team on the machinery of the Government of India has been of considerable help to us in coming to our conclusions.

5.28 In considering a suitable organization for the Bureau, we have attached priority to the services that it will have to render like the provision of consultancy assistance to the enterprises in important matters like problems of construction, difficulties and bottlenecks in production, manpower and other personnel problems and difficulties in setting up suitable finance and accounts organi-

zations. The Bureau could also render greater assistance as a clearing house of information. The other important function that the Bureau can perform is that of assistance to Ministries in systematising the appointments to the boards and other top management posts, the scrutiny and evaluation of feasibility studies and DPRs and in the appraisal of the different aspects of the working of the public enterprises.

5.29 Another important function that has been assigned to the Bureau is that of presenting reports and reviews of the working of public undertakings to Parliament and Government agencies. Upto now the Bureau has been compiling a consolidated Annual Report on the working of the industrial and commercial enterprises of the Central Government based on their Balance-Sheets and Profit and Loss Accounts. We feel that the usefulness of this report, which at present is factual, can be considerably enhanced in many ways. The Bureau can also make its expertise available to Ministries in making a critical review of the financial results of the enterprises. In fact, it will be most advantageous if the Bureau can be continually engaged in the appraisal of different aspects of the working of the public enterprises for bringing to the notice of the Ministries concerned the serious deficiencies or defects of co-ordination that might have been noticed. These could then be resolved through the appropriate inter-ministerial committee before an external appraising agency, like the Committee on Public Undertakings or the auditors, observes and brings these matters to Government's attention. In other words, the Bureau will be in relation to the Government what the internal audit organization is to an enterprise. We feel that a bigger role than this in conducting external appraisal will lead to unnecessary duplication of work since such an appraisal will in any case be done by the Committee on Public Undertakings and, in a different form, by the Comptroller and Auditor-General.

5.30 It is on these considerations that we have drawn up the list of functions to be assigned to the Bureau as given in Annexure III. We feel that the most appropriate organizational set-up for the Bureau will be on functional lines and suggest the work to be divided broadly under four divisions; viz, (i) technical—to cover work relating to planning and construction of projects as well as production difficulties and bottlenecks; (ii) financial—for work relating to the preparation of the Annual Report on the working of public enterprises and for tendering advice to them on problems of finance

and accounts and in the adoption of modern techniques of financial management; (iii) personnel—for work relating to the panels of persons suitable for appointment to the boards and other top management posts, help to the enterprises in evolving cadre development schemes including inter-undertaking transfers and the implementing of a manpower scheme for manning a portion of senior management and technical posts in undertakings participating in the pool scheme; and (iv) general management—for work relating to examination by Parliamentary Committees, including processing and securing implementation of their recommendations, provision of management consultancy and other services for the public undertakings and acting as a clearing house of information as well as an agency for promoting study and research in the problems of public undertakings. The organisational chart worked out on the above basis appears as Annexure IV.

5.31 We feel that an important task of the Bureau will be to indicate its role and prove its utility. We suggest that the Bureau should act as a catalytic agent for promoting study and with the help of Department of Administrative Reforms, Institutes of Management and other specialised institutions, organize and encourage expert groups to study the special problems of the enterprises and work out solutions which could be adopted for general application.

5.32 We have assigned to the Bureau a much bigger role and range of functions than what it has at present. Another study team constituted by the Commission to examine the machinery of the Government of India too have recommended an expanded Bureau of Public Enterprises. We feel that the existing arrangements under which the direction and guidance from the top is provided on a part-time basis by a Secretary in the Finance Ministry would definitely be inadequate in the future if the Bureau is to do justice to its new role. We recommend that, in view of the functions that we have proposed for the Bureau, it is essential that the Bureau is placed under the full-time charge of a senior officer, not below the rank of Additional Secretary, who has had experience of working in the public undertakings and not only in the administrative Ministries. In fact, the Bureau should ordinarily be staffed with persons who have had experience of working in the public enterprises.

Location of the Bureau of Public Enterprises

5.33 The Study Team on machinery of the Government of India have made a specific recommendation on this question in para. 3.3.4 of

their Interim Report. They have recommended that, a full-fledged Department of Industrial Development should be set up within the Ministry of Industrial Development and Company Affairs to act as a nodal agency for industrial co-ordination; and that the Ministry should have two sectoral Departments in addition, one of Engineering Industries and the other of Chemical Industries. Their suggestion is that the Bureau of Public Enterprises should be located in the Department of Industrial Development.

5.34 We have carefully considered these recommendations of the Study Team in the light of our own examination of the subject. The Bureau of Public Enterprises is, at present, located in the Ministry of Finance. It was set up in the Department of Coordination (Ministry of Finance) in March, 1965. It was then transferred to the Cabinet Secretariat in January, 1966 but the arrangement being found less advantageous, it was re-transferred to the Department of Co-ordination in June, 1966. We feel that from the point of providing an appropriate focus for co-ordination and ensuring the smooth working of public undertakings, the Bureau should continue to be located in the Ministry of Finance. The following are the more important reasons for our view:

- (i) The Bureau should above all be a service agency and should be organised with a view to providing expert and consultancy assistance to the public undertakings. If located in the Ministry of Industrial Development and Company Affairs, it will inevitably come to acquire a controlling aspect which would take away much of its utility.
- (ii) The Bureau is entrusted with the task of compiling periodical reports on the working of the public enterprises of the Central Government for submission to the Cabinet and the Parliament. It also plays a role in the appointments to key posts in all Central Government undertakings. To the extent that these functions are performed in relation to non-industrial undertakings, its location in the Department of Industrial Development will be inappropriate.
- (iii) One of the important tasks of the Bureau will be to undertake the appraisal of different aspects of the working of public enterprises. For this task to be performed objectively it will be better to locate the Bureau in a Ministry which does not have any direct responsibility for the administration of any industrial or commercial enterprise.

(iv) The Ministry of Finance will continue to have to ensure co-ordination in all financial matters relating to public enterprises. For this purpose an organization will, in any case, have to be set up in that Ministry. If the Bureau is also located in the Ministry of Finance, public undertakings will be required to deal with only one co-ordinating agency besides the administrative Ministry.

(v) The examination of project reports and other proposals for expenditure in the Ministry of Finance suffer, at present, due to a lack of technical proficiency. As a result, much of this examination is directed at non-essentials. Often objections are also raised due to an inadequate understanding of technical matters. The managerial and technical expertise available in the Bureau, as a part of the Finance Ministry itself, will help in a better appreciation of the proposals by Finance, making its examination more knowledgeable and purposeful.

On these considerations we are convinced that it will be more appropriate to retain the Bureau of Public Enterprises in the Ministry of Finance, even if a Department of Industrial Development is established on the basis of the recommendations made in the Interim Report of the Study Team on Machinery of the Government of India.

Organization in the Controlling Ministries

5.35 This too is a subject which falls within the purview of the Study Team on Machinery of the Government of India. We have dealt with this question from the limited angle of the need for setting up nucleus technical and planning cells in the Ministries for improving the quality of project scrutiny and evaluation in the Government and for a better appreciation in the Ministry of the broader technical and economic aspects of enterprises. In fact, the Third Plan document had suggested that such cells should be set up but the Ministries have not yet made much progress in implementing the suggestion. The Parliamentary Committees, in their reports on the Heavy Engineering Corporation, the Oil and Natural Gas Commission, and the Fertilizer Corporation of India, have reiterated the need for setting up such cells in the Ministries.

5.36 We recommend that a nucleus technical cell should be set up in each Ministry concerned with public undertakings to enrich the quality of the scrutiny and evaluation of feasibility studies and

Detailed Project Reports, to secure proper processing and utilization of the reports and returns submitted by the public undertakings, particularly of projects under construction, and to expedite action on various proposals received from the public undertakings in the Ministries and agencies of the Central Government.

5.37. We, however, feel that with the setting up of a properly staffed and expanded Bureau of Public Enterprises and the building up of the management organization in the public enterprises, it will not be necessary to set up an elaborate organization in each Ministry. In fact, with greater delegation of powers to the public enterprises, as we have suggested, the workload in the controlling Ministries will be considerably reduced. It will be appropriate, therefore, to set up only a nucleus organization in the Ministry. This cell can, of course, avail of the expertise available with the Bureau of Public Enterprises and the Directorate General of Technical Development. We make this recommendation in view of the fact that the type of talent required to build up the organization of the Bureau, the various staff groups in the public enterprises and the technical cells in the Ministry is already scarce and it will not be desirable to build up similar organizations performing similar functions, and yet multiplied and located at different places.

Location of Public Enterprises

5.38 With the integration of undertakings into larger multi-unit corporations it will be necessary to review their location under different Ministries. We feel that the general principle should be to locate a public enterprise on the functional principle, i.e., with the Ministry that is concerned with the development of that sector of industry, and not with the Ministry which is concerned with the customers' interest in the products of the undertaking. There may be exceptions, however, as in the case of the undertakings of the Ministry of Defence. We have not made any recommendations on this point about the defence undertakings, since another Study Team is looking into the question. Our proposals for the grouping of Central Government public undertakings amongst different Ministries appear in Annexure V.

3. Reports and Returns

5.39 Public enterprises have to submit various kinds of reports and returns to different agencies of the Government. Some are required under rules and regulations that are also applicable to similar

enterprises in the private sector, e.g., the ones submitted to authorities like the Registrar of Companies, Inspector of Factories, Labour Department, etc. Besides these, reports are submitted to the controlling Ministry or other departments of Government by virtue of the fact that these enterprises are agencies of the Government and are subject to Government's control and supervision. It is with the latter class of reports that we are here concerned.

5.40 An analysis of the existing position shows great variations in the number of reports submitted by different enterprises. It also shows that many enterprises are required to furnish an extremely large number of reports and returns. For instance, the Oil and Natural Gas Commission (ONGC) submit about 59 reports during the year, the Neyveli Lignite Corporation 51, ITI 43, Mogul Line 41, Mining and Allied Machinery Corporation (MAMC) 27, Hindustan Machine Tools (HMT) and the LIC 26 each, the National Coal Development Corporation 23 and the Indian Oil Corporation (IOC) 19. On the other hand, a few large undertakings make relatively fewer reports and returns, e.g., only 8 reports are submitted by the Fertilizer Corporation of India, 9 by the Heavy Engineering Corporation, 5 by Bharat Earth Movers, and 3 each by Instrumentation Limited and the National Mineral Development Corporation.

5.41 A more detailed analysis of the relevant information reveals variations in the number of reports of the same kind submitted by different undertakings. For instance, most undertakings submit one or two reports connected with the complaints and vigilance cases while the National Buildings Construction Corporation (NBCC) sends 6, and the MAMC 5; as for reports of a financial nature, generally one or two reports have been indicated by most undertakings, but in the case of the Neyveli Lignite Corporation, the number is 8, and for Mogul Line 4; and, in the case of returns relating to labour and personnel matters, against the normal number of 2, or at most 3 reports, the NBCC submits 7 returns, the HMT 6 and Mogul Line and Hindustan Salts 5 each. Even accounting for some difference in the criteria adopted by the undertakings in furnishing this information, a large degree of variation in the volume of reporting is obvious.

5.42 Almost all public undertakings have stressed that an unduly large number of reports are being called for from them, and at too frequent intervals. It appears from the studies so far conducted that

this voluminous information collected in the controlling Ministry is not put to adequate use. The studies conducted by the COPP Management Division, Planning Commission, indicate that the existing information systems are not streamlined and effective enough, and that it is doubtful whether any serious analysis could be made of this data, which often were loosely presented and much out-dated. Nor do the Ministries have sufficient expert staff at present to process the information obtained and suggest follow-up action. The Parliamentary Committees have often commented upon this feature. The Committee on Public Undertakings, in its first report on the NBCC, has pointed out that 'despite the submission of 11 reports and returns neither the administrative Ministry nor the Ministry of Finance were aware of the difficult financial position of the Corporation in time'. In their 5th Report on the ONGC, the Committee has remarked that the Commission submitted about 55 periodical reports and returns without the Ministry getting a clear picture of the problems and progress of the Commission. The Committee expressed the view that 'these reports have not served the purpose for which these might have been introduced', and recommended that 'the form and number of reports and returns should be reviewed by Government immediately with a view to rationalising them and increasing their utility'. The Committee reiterated this recommendation in their 6th report on the Fertilizer Corporation of India.

5.43 In our view, the existing system of reporting as between the public enterprises and the Government suffers from the following defects:

- (i) A rational and up-to-date system of reporting is yet to be designed for providing the Government with timely information about the true picture of the enterprise;
- (ii) in many cases, an unduly large number of reports and returns are being obtained from the public enterprises and at too frequent intervals;
- (iii) the form and contents of the reports need to be modified to cut out non-essential information and to concentrate on important items of information that the Government require for exercising control at key points; and
- (iv) adequate expert cells do not exist in the controlling Ministries or at a central point in the Government for processing the reports and returns and for taking follow-up action on them.

5.44 Recently, the Bureau of Public Enterprises has taken up the question of establishing a more rationalised and standard system of reporting by the enterprises. It has, in cooperation with the COPP Management Division of the Planning Commission, the Directorate General of Technical Development and the Ministries concerned, revised the prescribed forms relating to the monthly production reports of engineering, chemicals and pharmaceutical industries. A similar revision in respect of other industries and projects under construction is reported to be under way. The COPP Management Division which has done pilot work in developing methods of reporting and presenting progress on selected projects, has recently taken steps in cooperation with the Bureau to establish a Project Information Room to display the information received every month from the projects by the Bureau. The Bureau is also contemplating a revision of the quarterly financial reports submitted by the Financial Advisers.

5.45 The question of submission of reports to Government is very much linked with the internal information and reporting systems of the public enterprises. Taking an overall view, the information and reporting system can be sub-divided as follows:

- (i) reports submitted by the public enterprises to the Government;
- (ii) reports submitted by the management to the Board of Directors; and
- (iii) reports submitted by the different departments of the undertaking to its top management.

The last two categories cover the information and reporting system within the undertaking which we have taken up later in the ninth chapter. It may be mentioned here that installing modern systems of management and information reporting within the enterprise will considerably simplify the problem of devising the proper method of reporting as between the public undertaking and the Government. In most cases, it should be possible and sufficient for the controlling Ministry to confine itself to such information as the management needs for its own purpose. The objects for which the Government call for reports and returns from the public enterprises are equally relevant to the kind of information that should be available to the managements. We feel that if it is ensured that the required information, properly analysed, is available to the management, the Government will need very little information extra to that which is compiled and put up to the management board of the public enterprise.

We, therefore, suggest that, as far as possible, the forms devised for presenting information to the Government and to the management board should be identical.

5.46 We recommend that an expert Study Group should be set up for carrying out a more detailed examination of the problem. The Bureau should take action in cooperation with the COPP Management Division and the Ministries concerned, also enlisting the assistance of external consultants in this field. It is necessary first to review the information requirements of the controlling Ministries and other Government agencies to avoid overlapping and to enable standardized returns to be developed. We suggest that such a review should be conducted to cover both the requirements of financial management as well as the non-financial operating statistics required by various Government agencies for the planning and management of public sector projects. We feel that standardizing the needs in these two areas at the top will result in a greater degree of uniformity within the public sector itself.

5.47 We feel that normally there should hardly be any occasion to call for reports from the public enterprises at intervals more frequent than, say, once a month. We suggest that the weekly and fortnightly reports that are at present in force should be dispensed with straightaway, unless required by law, or exceptional reasons exist for obtaining the information from an 'autonomous' body at such frequent intervals. We suggest that every controlling Ministry should also periodically review the extent of utilization of these reports in order to cut out non-essential items of information and also to adequately strengthen their own organization for carrying out the required processing and analysis of information and for taking follow-up action

CHAPTER VI

PLANNING OF PROJECTS

Introductory

6.1. In accordance with its policy of achieving rapid industrial development, Government have set up an increasing number of projects in the public sector. By the end of the Third Plan period the industrial concerns of the Central Government alone accounted for an investment of the order of Rs. 2,200 crores. The Government had to break new ground in setting up these projects. It was a pioneering effort which the Government undertook in the face of enormous difficulties like lack of experience and technical know-how, paucity of trained manpower, low productivity, and the limitations imposed by serious gaps in the infra-structure required for industrial development. Yet, it is heartening to observe that there are instances of projects being completed with efficiency and expedition, well within the time-schedule and the estimated cost of construction. The Committee on Public Undertakings has in their 13th Report (December 1965) on Planning of Projects observed—

‘Considering the comparative inexperience in the matter of setting up of industrial enterprises, it cannot be said that our public undertakings have fared badly. The time in which some of our public enterprises have gone into production can compare well with similar industries in other countries.’

6.2 While substantial industrial capacity has been established in key areas and considerable advance achieved in acquiring technical know-how and experience and in setting up the necessary organization, experience has revealed that in many cases the planning and formulation of the project had not been done on a systematic, thorough or sufficiently comprehensive basis. In the 13th Report referred to above, the Committee on Public Undertakings has concluded that ‘many of the present uneconomic legacies of our undertakings can certainly be related to inadequate attention having been paid to various aspects at the planning stage of the projects.’ The draft outline of the Fourth Five Year Plan also states that ‘experience

to date has been that the majority of the public sector projects have taken longer to complete than was initially estimated, benefits from them have come later than expected, the capital costs have been higher than originally planned, and consequently returns on capital have been smaller than was expected when the projects were approved.'

6.3 In addition to the heavy investments already made in these projects, the draft outline of the Fourth Plan envisages a further investment of the order of Rs. 3,500 crores in the Central public sector projects. If this large amount of capital is to yield adequate returns, it is essential that the projects are taken to the production stage as quickly as possible and the nature and processes of project planning improved to the maximum possible extent. We have, therefore, considered this subject at length. The reports brought out by the Committees of Parliament on the working of public undertakings and the studies conducted by the Management Group of the Committee on Plan Projects (COPP) of the Planning Commission have been of considerable assistance to us in our study of the planning of projects.

Delays in Construction

6.4 Lack of proper initial planning and project formulation immediately manifests itself in delays in construction and in cost overruns. The Committee on Public Undertakings, in their 8th Report (1965), have compiled detailed information regarding the delays in the construction of factory buildings and compared the position prevailing in our public sector with that in foreign countries as well as in the private sector in India. A table containing this information has been appended at Annexure VI. The example of the fertilizer industry in the country is another relevant instance that can be cited. The UN Fertilizer Mission that visited the country in 1960-61 expressed the opinion that the normal time schedule for completion of fertilizer plants under conditions prevailing in India should be from 35 to 47 months. The following table extracted from the 6th Report (1965) of the Committee on Public Undertakings, indicates that the

time actually taken by our fertiliser projects varied from 52 to 71 months:

| Stage | Normal time-schedule estimated by UN Fertiliser Mission | Approximate time actually taken in India |
|---|---|--|
| (Time in months) | | |
| (i) Preliminary analysis, project report, initial decision to proceed with the project | 4-5 | 5-7 |
| (ii) Preparation of tenders, preliminary process and specifications | 3-4 | 3-4 |
| (iii) Contractors' project bid, review of bids and official decision to construct the plant | 4-8 | 12-20 |
| (iv) Ordering, construction, erection to completion and start-up | 24-30 | 32-40 |
| TOTAL | 35-47 | 52-71 |

Cost Over runs

6.5 Similarly with regard to the cost of the projects, the following table, extracted from the 13th Report of the Committee on Public Undertakings, shows the increases in the final cost of some public sector projects as compared to the original estimates:

| S.No. | Name of Project/Undertaking | Original Estimate | Actual/Anticipated expenditure | Percentage increase |
|-------------------------|---|-------------------|--------------------------------|---------------------|
| (Rs. Crores) | | | | |
| 1. | Durgapur Steel Plant | 115.00 | 205.25 | 78% |
| 2. | Rourkela Steel Plant | 128.00 | 230.40 | 80% |
| (Revised Estimate 1963) | | | | |
| 3. | Bhilai Steel Plant | 110.00 | 202.34 | 83% |
| 4. | Hindustan Teleprinters Ltd. | 1.5 | 1.65 | 10% |
| 5. | Gauhati Refinery | 13.06 | 14.51 | 11% |
| 6. | Hindustan Antibiotics Ltd. | | | |
| | (i) Pimpri Unit | 1.15 | 1.59 | 38% |
| | (ii) Penicillin expansion | 0.45 | 0.61 | 36% |
| | (iii) Streptomycin Unit | 1.73 | 2.08 | 20% |
| 7. | Hindustan Photo Films Manufacturing Co. Ltd. | 7.38 | 8.53 | 15.5% |
| 8. | National Mineral Development Corp. Ltd. (Kiriburu Iron Ore Project) | 9.06 | 11.22 | 24% |
| 9. | Hindustan Machine Tools Ltd. (Watch Factory) | 2.50 | 3.68 | 47% |
| 10. | Fertilizer Corporation of India Ltd. | | | |
| | (i) Trombay Unit | 24.34 | 33.40 | 37% |
| | (ii) Nangal | 20.90 | 31.20 | 49% |
| 11. | Heavy Electricals Ltd. Bhopal | 35.25 | 49.30 | 39.9% |
| 12. | Heavy Engineering Corporation Ltd. | 125.95 | 206.50 | 64% |

Existing Deficiencies

6.6. These overruns in time and cost can largely be traced to the lack of adequate initial planning and project formulation. The need for carrying out detailed planning is being increasingly recognized but there are still cases of projects being approved without insistence on all the stages of preparation and scrutiny that must be regarded as essential. The ellipsis of such essential steps results in incompletely conceived plans and estimates and leads to unsound decisions on project size, scope, location and product mix. For example, many projects did not undertake a demand analysis in respect of the products and consequently experienced difficulty in selling off their products when they went into operation. Frequently, the size of the project was determined without considering the economies of the scale of production or the optimum plant size. In some projects, the location or the site was decided without undertaking soil investigations with the result that half-way through construction, the original site had to be abandoned and the project shifted to another site. Our study has shown that, at the stage of planning and formulation, very few projects have considered it necessary, to work out the commercial profitability of the enterprise by considering the timing of the inflow and the outflow of cash. We give below a few illustrations to bring out the more common deficiencies from which the planning of projects have suffered.

6.7 In the case of the Trombay Fertilizer Project studied by the COPP Management Group, it was observed that for determining the scope and the pattern of the product mix, a number of committees were set up during the various stages of the formulation of the project. But no detailed analyses were, however, made on these basic issues. Half-way through construction, it was decided to appoint another Committee to study these problems in detail. This Committee recommended a different pattern of product mix, which necessitated changes in the scope of the project and revisions in several contracts that were already under negotiation. Such changes in the scope of the project and contracts not only caused considerable delays in the execution of the project but also increased the cost. Ultimately the project took 6 to 7 years for completion, instead of the 3 years estimated before the start of construction. The final cost of the project also exceeded the original estimates by over Rs. 13 crores.

6.8 Another instance can be found in the case of the Khetri Copper Project of the National Mineral Development Corporation.

In this case, the possibility of recovering the by-products in the manufacturing process was not visualised at the time of the planning and formulation of the project. Later, a more thorough analysis of the technical aspects of the project revealed that the project would be more economical if some additional plants were installed and the by-products recovered. Thus the scope of the project had to undergo significant changes during the period of formulation and this caused delays in implementation.

6.9 From facts gathered from the Heavy Engineering Corporation, we understand that the initial decision concerning the site for the Foundry Forge Project was based on assumptions which were later found to be incorrect. The earlier site investigations were not thorough enough to determine the nature of the foundations required. It was only during execution, when detailed soil investigations were carried out, that it was found that pile foundations would be required. As the original project report did not make any provision for pile foundations, this item had to be included subsequently. This increased both the period as well as the cost of construction.

6.10 While inadequate soil investigation at the initial planning stage necessitates changes in foundation design and method of work, such deficiencies may at times even compel the project to be moved to another site. In the Namrup Fertilizer Project* of the Fertilizer Corporation of India, the delays and cost overruns were primarily due to the poor analysis of site in the beginning. In this case, half-way through construction, the entire factory had to be shifted from the original site because of the unsuitable soil conditions that were encountered after the work was started.

6.11 Information received from the Heavy Electricals, Bhopal, reveals how indifferent planning can result in omission and under-estimation of several items. Inclusion of new items or revision of original estimates created serious financial problems and caused considerable delays in implementation. In this case, civil works, tools and plant worth Rs. 17.4 crores were not provided for by the consultants in the initial project report. Besides, several works such as service tunnel, roads, railway siding, etc., were under-estimated. To some extent, such revisions may become necessary in any project; however, in many cases, such revisions occurred

*Sixth Report of the Committee on Public Undertakings (Third Lok Sabha) on Fertilizer Corporation of India (Relating to Namrup Project).

either due to lack of proper assessment of work or inadequate co-ordination between consultants and the project authorities.

6.12 Another aspect often not fully considered during initial project planning is the availability of the raw materials required. In the fertilizer factory at Rourkela Steel Plant†, the assumptions in respect of the quantity and quality of gas available from the coke ovens were wrong. This created serious problems in the operation of the fertilizer factory. As a result, several sections of the fertilizer plant remained idle or operated at 50% to 56% of the rated capacity. Further, even after the steel plant expansion to 1.8 million tonnes is carried out as proposed, the fertilizer plant will still be unable to operate at the full rated capacity unless additional equipment costing Rs. 169 lakhs is installed.

6.13 A few of the coal mine projects have been reviewed by the COPP‡. A serious general deficiency that has been noticed in the initial project planning has been the lack of proper demand analysis. Assumptions made initially that coal produced by the mines would be consumed by the railways did not turn out right. The railways undertook a dieselization programme and their demand for coal was considerably reduced. This had been overlooked in the initial planning of the coal mine projects.

6.14 Another inadequacy observed in the planning of projects is the lack of co-ordination or integration of the project under consideration with other inter-dependent projects. An example of this is the Kiriburu Iron Ore Project of the National Mineral Development Corporation*. In this case, the development of the iron ore mine project depended on the establishment of a railway link between the mining area and the port as well as on the construction of iron ore handling facilities at the port. However, the project could not go on stream and export the product because the railway link was not ready. As a result of this the installations at the mining area lay idle for some time. The work on the railway link then had to be speeded up. But even after the construction of the railway line had

†Eleventh Report of the Committee on Public Undertakings on Rourkela Steel Plant of HSL (May, 65).

‡An analytical Review of Projects in the Energy Development field: Dugda I Coal Washery, Bistrampur Coal Mines and Chandrapura Thermal Power Station, Committee on Plan Projects, Planning Commission (1965).

*As from the various quarterly progress reports (period 1964-1966) of Kiriburu Iron Ore project of National Mineral Development Corporation.

been completed, the export of iron ore was held up as the port development had not been completed. Thus, the operation of the iron ore mine was further delayed and the potential export of iron ore lost.

6.15 Generally, the approach adopted at present in the planning of projects is that at first projects are included in the Plan on the basis of studies conducted by working groups formed in the Planning Commission for assessing future demand. Thereafter, a feasibility study is taken up by a team set up for the purpose. This team includes the representatives of the Ministries concerned and also the public undertaking, if it is proposed to entrust the new project to the undertaking. The Department of Coordination of the Finance Ministry have issued a circular on the subject on 7th August 1965 in which the necessity for careful and detailed investigations with regard to the suitability of site, availability of the required natural resources, other raw materials, etc, has been emphasised. The same Department has issued another circular on the 7th October 1965, emphasising that a feasibility study should be prepared before proposing projects for external assistance. In the case of all major projects the detailed project report provides the basis for the sanction as well as the execution of the project. However, the practice in this regard has not been uniform. There have been cases where projects have been approved without the preparation of the DPR, for example, the Trombay Project of the Fertilizer Corporation of India, the Alwaye Project of the Hindustan Insecticides, ITI, Hindustan Teleprinters, Hindustan Organic Chemicals, etc. In certain cases, the DPRs have been prepared twice, e.g., Bokaro Steel Ltd., National Instruments Ltd., the Coal Mining Machinery Plant (now MAMC) of the Heavy Engineering Corporation and the Panna Diamond Mining Project of the NMDC. While citing these instances, the Committee on Public Undertakings (13th Report) have also remarked on the lack of uniformity in the items covered in the DPR, and recommended a standard check-list of items for the purpose.

6.16 The main inadequacies that our study has revealed are the following :—

- (i) A large number of projects have taken longer in construction and in reaching the full targeted production than originally envisaged and have been completed at a cost much in excess of the original estimates. One of the main reasons for this has been the lack of proper attention being paid to the initial planning of projects.

- (ii) While planning projects, all the steps required to be taken during the project formulation stage are not followed, with the result that projects have been executed on the basis of incompletely conceived plans and estimates.
- (iii) Planning has proceeded in a piecemeal fashion, i.e. all the technical and economic aspects of the project have not been considered together at one time. This has necessitated revisions of the project proposals and led to inordinate delays in the initial stage of project formulation.
- (iv) Often during initial planning, decisions have been taken on the basis of assumptions which have not been verified or supported by a thorough analysis of the situation, facts and past experience.
- (v) Specifically, the more significant deficiencies have been:
 - (a) lack of detailed analysis on scope and pattern of product mix;
 - (b) selection of site based on inadequate soil investigations;
 - (c) omission and underestimation of several elements of the project;
 - (d) lack of proper assessment of demand for the product; and
 - (e) incomplete analyses of commercial profitability and national economic benefits.
- (vi) At times, two or three projects are interrelated or inter-dependent. In such cases there is lack of coordination and sufficient effort is not made to dovetail the different stages of inter-dependent projects with the result that a particular project, though completed, cannot start its operation till another connected project is also complete.
- (vii) There is lack of uniformity in the steps through which a project has to be processed during its formulation stage. Some projects have been approved on the basis of preliminary project analyses, and some have not been approved till after the preparation of the DPR.

Suggestions for improvement

6.17 There are a series of steps, logical and definitive that should be taken in project planning and formulation. To assist the Ministries and project authorities in the planning of projects, a very useful Memorandum on 'Feasibility Studies for Public Sector Projects' has

been prepared by the Planning Commission (Committee on Plan Projects) in cooperation with the Ministries. We have gone through this Memorandum, and find that it can serve as a good blue-print and guide for the steps to be taken and the various documents that should be prepared before a project is sanctioned and taken up for execution. The Memorandum calls for the preparation of the following documents:

- (i) Preliminary Project Formulation;
- (ii) Feasibility Study Report; and
- (iii) Detailed Project Report/Supplementary Project Estimates.

It will be worthwhile to briefly describe these documents here.

Preliminary Project Formulation

6.18 This is needed primarily to outline the demand for the product and the role of the project as a whole in the economic development of the country. This document should indicate broadly the location, profitability and the agencies which should undertake the feasibility study, construction and operation of the project. It is the first formal step in the process of planning and the decision to prepare the feasibility study will be based on this document.

Feasibility Study

6.19 The feasibility study is to cover such aspects as demand analysis, pricing, technical development, location of the project, project estimates, profitability analysis, and assessment of national economic benefits. The object of this study is to analyse all the possible alternatives and to choose the particular alternative which is technically sound, economically feasible and nationally most beneficial.

Detailed Project Report (DPR)/Supplementary Project Estimates

6.20 The DPR should contain complete technical designs and detailed estimates for the chosen project. The Guide on feasibility studies for public sector projects insists on a formal DPR only when a foreign consultant is designing the project on behalf of Government. In other cases, it envisages the preparation of supplementary project estimates on the same lines as the DPR but does not make the approval of a project dependent on the formal submission and approval of the DPR.

6.21 We do not think it is necessary for us to go into the details of each of these documents and the way in which they have to be prepared, as these have been elaborately explained in the Planning Commission's Memorandum. We recommend that for every project involving investment above a certain limit, say, Rs. 5 crores and above, a feasibility study should be prepared on the lines set out in the Planning Commission's Memorandum.

6.22 We would, however, like to emphasise the crucial importance of a proper demand survey and analysis before going in for sizable investment in a project. It is the first important step in the preparation of the Feasibility Study Report. The present procedure for assessing demand through *ad hoc* or standing working groups in the Planning Commission may be useful for determining plan priorities or a notional allocation of resources for different projects, but it is certainly not good enough for an investment decision. We recommend that before going in for additional capacity the agency concerned should assess the demand for the product in all its aspects, namely, the effect of price on demand, the location, pattern and time phasing of demand, and the practical possibilities of selling the product under competitive conditions in India and abroad.

6.23 Another aspect that should be fully examined during the preparation of the feasibility study is the possibility that the new capacity that is proposed to be created may already be available in some other enterprise within the country.

6.24 We are in general agreement with the approach adopted in the Memorandum on 'Feasibility Study for Public Sector Projects', and we approve of the suggestions that the Memorandum makes on the steps to be followed and the documents to be prepared under two possible situations, namely, projects for which experience in designing and construction is available in the country and projects for which a foreign technical collaborator is indispensable.

Projects where foreign collaboration is not necessary

6.25 In the case of projects for which designing and construction experience is available within the country, we endorse the suggestion that once the basic investment decision is made on the basis of a feasibility study it should not be necessary to prepare a DPR for obtaining Government sanction. This does not mean that the project authorities do not have to carry out the task of detailed planning, the preparation of specifications and designs, establishing of

schedules and preparation of the final estimates normally incorporated in a DPR. It only means that, since the experience for the project is available within the country, the DPR will not, in most cases, show wide variations from the feasibility study, and the requirement of yet another approval at Government level on the basis of the DPR may simply occasion delay without any commensurate advantage.

6.26 We, therefore, suggest that project scrutiny and subsequent Government approval to go ahead with the project may be based on the feasibility study report, and applications for foreign exchange where required, should also be disposed of on the basis of this report. Supplementary project estimates should, however, be prepared in such an event. It will be necessary to take account of changes that might occur as a result of rise in prices, unforeseen circumstances and omissions or under-estimations. This document should revise and bring out likely changes in the project cost estimates and schedules as compared to those indicated in the feasibility study report. It should also examine the likely impact of the increase on the prices of the products. This will enable Government and the public undertaking to ensure that the revised cost estimates can still be met and will not affect the economies of the enterprise. Although partial funds for starting construction of the project would have been allocated on the basis of the feasibility study, the final release of funds should be authorised only after the preparation of the supplementary project estimates.

Projects requiring foreign collaboration

6.27 For projects in which foreign technical collaboration is indispensable, the Planning Commission Guide suggests four steps leading to the implementation of the project, namely, preliminary project formulation, technical requirements study, commercial and national feasibility study and detailed project report. We agree with the suggestion made in the Guide that when a foreign collaborator is employed to prepare the DPR, Government or the public undertaking should prepare a feasibility study from the point of view of national economic benefits and the project approval should be based only on this report.

6.28 The detailed project report which is the final step should contain complete technical designs and estimates for the chosen project including the detailed plans on the basis of which construction

could proceed. It should also include a complete lay-out of the plant, detailed specifications of work and equipment, complete work plans and schedules, contract planning, and materials, manpower and financial plans as well as the necessary organizational structure for the project.

Dependence on Foreign Consultants

6.29 In the initial stages, it was of course essential to obtain the services of foreign consultants and collaborators in setting up the public sector projects as the requisite technical know-how was not available in the country. Although Indian consultancy services have increased in recent years both in the public and the private sector, we are still very far from the goal of self-sufficiency in this respect. In their 13th Report, the Committee on Public Undertakings expressed their particular concern on 'our extreme dependence on foreign consultants and collaborators for setting up projects'. The Committee further observed that 'there is hardly any industrial public undertaking in the country which has been set up without the help of foreign consultants and collaborators.'

6.30 The need for developing Indian consultancy services, particularly the setting up of adequate planning and designing cells in the larger public enterprises, requires no emphasis. Many of the larger undertakings like Hindustan Steel, Fertilizer Corporation of India, Neyveli Lignite Corporation, ONGC, NMDC and the NCDC have already set up designing and engineering organisations and have also prepared the DPR for one or more projects undertaken by them through their own organization. Recently, the Bharat Heavy Electricals have performed similar work with regard to the Hardwar Foundry Forge Project although they are yet to set up a full-fledged planning and development division. Certain other undertakings have also built up design and consultancy organizations recently, e.g., the Heavy Engineering Corporation, the Mining & Allied Machinery Corporation and the Fertilizers & Chemicals Travancore Limited. The Technological Consultancy Bureau of the National Industrial Development Corporation has rendered consultancy assistance to several projects in the public as well as the private sector. A list of Indian consultancy organizations, including private firms and classified industry-wise, is given in Annexure VII. Many public undertakings like Hindustan Organic Chemicals, Hindustan Antibiotics, ITI, Hindustan Teleprinters, Bharat Electronics, etc., have indicated that although they do not have full-fledged designing and engineering

cells they have got sufficient technical capacity to undertake the preparation of feasibility studies/DPRs in their field. In certain cases, the divisions already set up in the public undertakings are not being utilized fully. For instance, the Fertilizer Corporation of India have indicated that they are in a position to prepare the feasibility study/DPR for two major projects each year. Similar is the position in the Heavy Engineering Corporation and the Mining and Allied Machinery Corporation.

6.31 Notable examples of large undertakings that have not yet set up the necessary designing and consultancy organisations are the Hindustan Machine Tools and the Indian Oil Corporation. In the case of the latter, a designing and consultancy cell had been set up at the Gujarat Refinery but most of its staff has moved to the new public undertaking, namely, Engineers India Ltd, that has been set up in collaboration with a foreign firm specially to undertake designing and consultancy work in the oil sector. We feel that the development of designing and consultancy capacity in the public sector has been hampered because a large number of independent public undertakings have been set up even in the same field of technology. We are convinced that the amalgamation of these enterprises under multi-unit corporations on the lines suggested by us will not only help in the building up of the necessary capacity but also in its fuller utilization.

6.32 We recommend that the consultancy organisations within the country should be registered and classified according to their field of activity and their capacity. We have already recommended that the Bureau of Public Enterprises in cooperation with the Ministry of Industrial Development and Company Affairs should undertake this work including the promotional measures necessary for building up the consultancy services required by the public enterprises. We also recommend that the public undertakings should be encouraged and assisted to set up adequate designing and consultancy organizations which we feel will be an easier task for the industrial multi-unit corporations proposed by us.

6.33 We also recommend that the Bureau of Public Enterprises should be consulted on the availability of indigenous capacity and consultancy services in respect of each project for which the approval of the inter-Ministerial Negotiating Committee and the Foreign Agreements Committee is sought.

6.34 We also endorse the recommendation made earlier by the Parliamentary Committees that turn-key contracts should not normally be awarded to foreign collaborators. We recognize, however, the need for obtaining, in special cases, the latest technical know-how in the event of recent advances having been made in a particular field, even though it resulted in the award of turn-key contracts. In such cases, the necessary contract should require the foreign contractor to supply complete drawings and designs including the network and time schedule of construction and to associate Indian engineers with the erection work and train them abroad. The contract should also specify that the overall control of construction (including turn-key jobs) would vest in the project management.

Inter-dependent Projects

6.35 We have referred to certain projects which are inter-related in the sense that the output of one constitutes the input of another. For such projects, it is clearly necessary to adopt a 'total systems' approach to their conception and planning. This will reduce the total cost of implementation and avoid situations in which the capacity created in one project lies idle waiting for the completion of a related feeder project.

Project Management Staff

6.36 It is customary to appoint a qualified and senior officer in the controlling Ministry to work as an officer on special duty in charge of a particular project. This officer with some nucleus staff looks after the implementation of the project in the earliest stages and then steps are taken to form a Company, constitute a Board and appoint the Chief Executive, Financial Adviser, etc. The Committee on Public Undertakings has cited a number of cases (13th Report) in which there has been a long time lag in the appointment of the Project Officer and the Financial Adviser after the decision to set up the project. We suggest that once it is decided to go through with a project, the project manager as well as the key personnel to be later put in charge of departments like construction, finance, production and personnel should be selected and associated with the process of planning the project. Two advantages will flow from this: first, the project officer and his staff will bring greater realism to the planning process and the time-schedule and will have a special interest in the timely completion of the planning phase; secondly, planning for the establishment of adequate organisations and procedures

on the finance side and for taking advance action to meet the personnel needs of the management of the project will be more detailed and comprehensive. We have earlier expressed the view that the time has now come to entrust the setting up of new projects to running concerns in the public sector. With the setting up of the corporations, these bodies will be able to find from amongst their own experienced staff, persons who have the requisite competence to plan and execute new projects.

Project Evaluation and Approval

6.37 Evaluation of a project, i.e., the assessment of the techno-economic soundness of a project and the desirability of the investment involved depends upon the criteria adopted for the purpose. A private entrepreneur may judge the project solely from the point of view of return on capital investment, i.e., commercial profitability. Although commercial profitability is an undoubtedly important consideration and index, the need and success of a public sector project can also be viewed from the wider standpoint of the national economic profitability. This involves consideration of all the costs and benefits to the economy as a whole in the light of the overall objectives of national development. In this broad sense, the evaluation of a project is carried out after the completion of the feasibility study and forms the basis for its subsequent scrutiny and approval.

Inadequacies in Project Evaluation

6.38 A review of the existing system of project evaluation indicates weaknesses in the following areas:

- (i) evaluation based on incomplete project analysis;
- (ii) inappropriate criteria for evaluation;
- (iii) delays in evaluation and approval of the project; and
- (iv) unsuitable procedures and channels of project evaluation.

6.39 The first problem stems from the fact that project planning is often incomplete and inadequate. At the time of finalising the Five Year Plan, all the projects that have to be included in the Plan

may not have been formulated in detail. In such cases, the evaluation of a project is based only on a preliminary project analysis and not on a detailed feasibility study. The inclusion of such projects in the Plan often leads to the assumption that they stand approved and sufficient effort is not, therefore, put in subsequently to complete the planning and evaluation of these projects. This has sometimes led to the approval of projects which were later found to be technically or economically unsound. We recommend that projects should not be included in the Five Year Plans unless the feasibility studies have been completed and found to be satisfactory on scrutiny. Wherever a project is to be included without such a study, it should be mentioned solely as a notional target and no mention should be made of the location of such projects so that it does not become a commitment on the part of the Government to stick to the location mentioned in the Plan even though later studies may reveal the unsoundness of the earlier proposals on location or size.

6.40 As regards criteria for project evaluation, at present there is some inconsistency between planning at the national level and planning at the project level. The national development plan is formulated in terms of national objectives, such as the rate of economic growth, employment, increase in standards of living, improvement in the balance of payments position, progress towards self-reliance, removal of regional disparities in development, etc. Although projects are formulated within the broad framework of the Plan, they influence the plan targets in turn. But there is still a gap between the two, since at present projects are formulated and evaluated largely in terms of commercial profitability and the capacity to earn or save foreign exchange. It is necessary in our view to develop techniques for evaluating the return from projects in terms of national objectives, i.e., measuring the costs and benefits of a project from the standpoint of the overall economy and the development needs of the country. It has been suggested by certain authorities that the criteria for evaluating a public sector project should be its national economic profitability as distinct from mere commercial profitability. The Haldia Docks Project is reported to have been evaluated on this basis. While we agree with this approach in principle, we should caution against the possibility that ambiguity in defining national economic profitability and insufficient data may vitiate such an evaluation. We, therefore, suggest that Government and the Planning Commission should evolve and lay down standard guidelines that clearly define the criteria and the methodology for project evaluation from the standpoint of national economic profitability.

6.41 There have been many cases of undue delay in project evaluation and approval of DPRs as would appear from the table* below:

| Undertaking | Date of receipt of DPR | Date of Govt's decision | Time taken | |
|--|------------------------|-------------------------|------------|--------|
| | | | years | months |
| Bharat Electronics Ltd. | March, 1950 | 5th July, 1952 | 2 | 3 |
| Hindustan Photo Films Manufacturing Co. Ltd. | June, 1961 | 18th Aug., 1962 | 1 | 2 |
| Heavy Machine Tools Project of HEC | April, 1962 | May, 1963 | 1 | 1 |
| Foundry Forge Plant of HEC | April, 1962 | May, 1963 | 1 | 0 |
| Heavy Power Equipment Plant of BHEL | Aug., 1962 | July, 1963 | 0 | 11 |

The long time taken in the pre-construction phase has a direct bearing on the time and cost elements of the projects. Reduction of the evaluation period of a project would firstly require the streamlining and clarification of current procedures and the identification of decision points in the process of evaluation. Delays in project evaluation are largely attributable to the procedures and channels in the Government, through which a project has to pass before it is approved.

6.42 At present the responsibility for evaluation and approval of the feasibility study/DPR is shared among the administrative Ministry concerned, the Ministry of Finance and also the Planning Commission. Normally, *ad hoc* committees consisting of the representatives of the Ministries and agencies concerned are set up for this purpose. From the information furnished by the Ministries in this respect, it appears that the feasibility study/DPR has to pass through successive stages of consideration at intervals even after the setting up of the *ad hoc* committees. A defect in the existing procedure seems to be that some of the concerned agencies, particularly the Ministry of Finance, are brought into the picture at a fairly late stage when the feasibility study or DPR has already been prepared. If the technical experts of any agency concerned (e.g. the Directorate General of Technical Development), or the Ministry of Finance, raise certain basic objections at this stage, basic changes and modifications might become necessary in the feasibility report. Another reason for delay in approval of projects is the fact that the scrutiny

*Thirteenth Report (Dec. 1965) of the Committee on Public Undertakings.

and evaluation of the feasibility report takes place in several stages and at intervals.

6.43. We recommend that immediately on the receipt of the feasibility study/DPR the administrative Ministry should set up a pilot-ing committee comprising the representatives of all the Ministries and agencies concerned and the Bureau of Public Enterprises and that this committee should undertake a concurrent and collective examination of all aspects of the feasibility study/DPR so that papers do not have to be sent from Ministry to Ministry and queries raised and answered through time-consuming correspondence.

6.44 We recommend that this committee should have a look at the preliminary project analysis as well so that the basic objections that any of the members might raise get taken care of during the planning stage itself. It is to be noted that much time and effort of technicians and specialists goes into the preparation of the feasibility study, and it is clearly desirable that the procedures of scrutiny and evaluation should be so devised as to reduce the wastage of their time and effort to the minimum.

6.45 We are convinced that Government should progressively entrust the work of project planning and formulation to the running public enterprises. Furthermore, these enterprises should have the certainty that future projects in their field will be entrusted to them. Only then will they feel and act on the need to set up and maintain designing and consultancy organizations without the fear that these may be described as expensive appendages or ornamental liabilities. This will be a concrete step in the direction of self-reliance and will increase our ability to set up the plants ourselves.

CHAPTER VII

CONSTRUCTION

7.1 Before a project goes into operation, the important stages in its life are project planning and formulation, construction planning and construction management. We have dealt with the first of these in the previous chapter. The remaining two are covered in this chapter. Recent studies and the reports of the Parliamentary Committees highlight the fact that project planning and construction planning have not been as thorough and meticulous as they should be. This has resulted in delays in construction as well as avoidable expenditure. These have also led to a delayed realisation of benefits expected from the projects and poorer returns on capital investment. It must also be observed that the construction industry, which is far from well organised and which has hardly kept pace with modern developments, has acted as another limiting factor in achieving speedy and economical execution of projects. A major portion of capital investment goes into the construction of factory buildings, township and other civil works. It is thus obvious that good construction planning and management, and the adoption of modern techniques, would enable large savings in time and cost and help to keep down the capital costs of projects.

7.2 The Committee on Public Undertakings have pointed out several instances where expenditure on construction has exceeded original estimates. The table given in para. 6.5 of the previous chapter illustrates this point. The following table gives the main factors responsible for cost over-runs in some of the projects:

| Project | Estimated Cost (Rs. in crores) | | | Main factors responsible for cost over-run |
|----------------------------|-----------------------------------|-----------------|---------|--|
| | Original | Revised | Overrun | |
| Nangal Fertilizer Project | 20.9 (1955) | 31.2 (1963) | 10.3 | <ul style="list-style-type: none"> • Change in scope • Omission of financing charges (Rs. 2.6 crores). |
| Trombay Fertilizer Project | 26.4 (1959) | 39.5 (1965) | 13.1 | <ul style="list-style-type: none"> • Change in scope (product pattern) • Omission of financing charges (Rs. 3.1 crores). • Increase in prices. |
| Rourkela Steel Plant | 128.0 (1955) | 230.5 (1963) | 102.5 | <ul style="list-style-type: none"> • Change in scope of work. • Non-inclusion of provision for mine and quarries, township interest on capital etc. • Increase in rates, custom duties etc. |

7.3 Similarly, with regard to time schedules, there has been considerable variance between the original schedules established at the commencement of the project and the actual time taken for its completion. The table below, extracted from the 13th Report (December 1965) of the Committee on Public Undertakings gives an idea of the delay in the completion/commissioning of projects:

| Project | Delay (in months) |
|--|-------------------------------|
| Barauni Refinery (1 m. ton stage) | 24 approx. |
| Streptomycin Plant of Hindustan Antibiotics Ltd. | 12 approx. |
| Dugda I Coal Washery | 12 |
| Bhilai Steel Plant | 5—22 (for different units) |
| Durgapur Steel Plant | 2—8 (for different units) |
| Rourkela Steel Plant | 2—40 (for different units) |
| Mining Scheme of Neyveli Lignite Corporation Ltd. | 22 approx. |

The table in Annexure VI, referred to in the previous chapter, gives a comparative statement of the delays in completion of projects *vis-a-vis* the position in foreign countries and in the private sector in India.

7.4 These delays and increases in costs can largely be traced to poor and inadequate construction planning. In the mid-term appraisal of the Third Five Year Plan, the Planning Commission has made the following observation:

‘The progressing of projects could be speeded up if adequate care is taken initially to plan the project in sufficient detail, to define its scope (and adhere to it), to estimate the cost and foreign exchange requirements with sufficient degree of precision and to lay down realistic schedules of implementation. The lack of adequate preparatory planning has largely contributed to the delay in the implementation of certain projects in the public sector.’

Inadequacies in Construction Planning

7.5 Construction of most of the public sector projects presents a large and complex task to the management. However, the need for improved techniques and the organization for improved planning has not as yet been sufficiently recognized. Only a few projects have a separate planning cell, normally attached as a staff group to the project manager, for carrying out the numerous tasks of master planning

and scheduling, cost control, coordination of technical specifications, estimates and preparation of contracts and assistance to the various contractors and project groups for achieving a coordinated approach throughout the phase of construction.

7.6. The Committee on Plan Projects of the Planning Commission have had a number of studies conducted on the way in which construction of projects has taken place in the public sector. We feel it will be useful to give here a few illustrations that bring out the more important and common deficiencies in construction planning.

7.7 In the case of the Trombay Fertiliser Project*, it took 6-7 years to complete the project against a time schedule of 3 years as originally envisaged. Similarly, the original cost estimate was Rs. 27 crores (1959) and the final cost stood at about Rs. 40 crores (1965). The project also went through a series of revisions from time to time. The table below sets out the dates of commissioning of the various plants of the project as originally planned and as subsequently revised:

| Sl. No. | Name of Plant | Original Schedule (June, 1960) | September 1961 Revision | December 1962 Revision | May 1963 Revision |
|---------|----------------|--------------------------------|-------------------------|------------------------|-------------------|
| 1. | Ammonia | Nov 63 | Jan 64 | Apr 64 | Feb 65 |
| 2. | Urea | Nov 63 | Jan 64 | Apr 64 | Feb 65 |
| 3. | Nitric Acid | Nov 63 | Jan 64 | Apr 64 | Apr 65 |
| 4. | Sulphuric Acid | .. | Nov 63 | Jun 64 | Apr 65 |
| 5. | Nitrophosphate | .. | May 64 | Aug 64 | Apr 65 |

7.8 The study of this fertiliser project has revealed that "target dates" established at top management level without a complete and detailed plan, were not realistic or consistent with the actual work to be done and different contractors had their own schedules that conflicted with one another. There was no common integrated plan of work. It was not possible for the management to accurately assess the project schedule position as several project schedules had come to be in existence, and some of these quite often disagreed with each other. Agencies participating in construction had become demoralised by the imposition of work schedules which, to them, were not realistic. Contractors expressed reluctance to over-extend themselves to meet milestones in an impossible schedule. This reluctance was often demonstrated by the restricted interest that contractors took by working only to satisfy contractual obligations and not caring

*COPP Report : A Review of the Construction of Trombay Fertiliser Project November, 1965).

to work as part of a project team. As a result, communications between contractors and project departments deteriorated and there was hardly any coordinated effort.

7.9. In the case of a power project*, the reasons for delays experienced and reported by the project authorities were largely traceable to inadequate planning. These were:

- (i) Non-availability of certain indented sections of steel, necessitating changes in sections of the power house structure, and delaying the drawing of piping layout, etc.
- (ii) Delay in obtaining import clearance for the Dust Collection Plant. The Ministry of Industry advised that the plant be obtained from an indigenous manufacturer. Negotiations with the local firm revealed that the price and delivery schedule were unsuitable. Clearance for import was then obtained; but approximately seven months were lost as a result of the internal negotiations.
- (iii) A similar delay was experienced in the procurement of the instrumentation panels. The project management had assumed that the order would be placed with a particular manufacturer without the necessity of inviting global tenders but this assumption proved erroneous as it was decided to invite global tenders to secure the best price.
- (iv) A delay of 15 months occurred in establishing the supply source for the boilers. After receiving tenders, Government decided to place the order with one foreign firm, although a lower bid had been received from another foreign firm. Protracted negotiations with the first firm were held to finalise the terms and conditions of the contract closer to the lower bid.
- (v) Delays in obtaining visas and income-tax clearance for the supervising erectors delayed the plant erection programme.

7.10 The above delays occurred mainly because there was no proper and dovetailed plan depicting the inter-relationships of inter-dependent events. This resulted in the failure to take action on

*COPP Report : An Analytical Review of Projects in the Energy Development Field (i) Dugda I Coal Washery, (ii) Bisrampur Coal Mine, (iii) Chandrapura Thermal Power Station (November, 1965).

matters having long lead-times and having a critical bearing on the completion of the project.

7.11 In the case of a coal washery project,* it was originally envisaged that the construction and erection of the project would be completed within 24 months from the date of award of the contract. The actual completion of the washery took 41 months—a delay of 17 months. The major factors responsible for delay in the construction of this project were found to be:

- (a) inability of the contractors to procure steel in time;
- (ii) delay in the receipt of electric machinery and equipment;
- (iii) delay of 5 months in making the initial 10 per cent. payment and obtaining import licences;
- (iv) delay by the contractors in furnishing foundation drawings with a consequent delay in the excavation of the site; and
- (v) delay due to modifications of original plant layout and design of a clean coal loading bunker.

The study of this case revealed the inability of the project management to exercise overall schedule control in the case of projects having works components which were being executed under turn-key contracts. The reluctance of turn-key contractors to report interim progress in detail made it difficult for management to co-ordinate the total construction effort.

7.12 The main deficiencies that we have come across in the course of our study may be recounted as follows:

- (i) Planning for construction has not been sufficiently thorough and meticulous. In consequence, there have been delays and avoidable expenditure in construction, delayed utilization of benefits from the project and poorer returns on capital investment.
- (ii) In many cases, a master plan including all the major elements of work was not developed and implemented. This diluted the effectiveness of management direction.

*COPP report *ibid.* : An Analytical Review of Projects in the Energy Development Field : (i) Dugda I coal washery, (ii) Bistrampur Coal Mine, (iii) Chandrapura Thermal Power Station (November, 1965).

- (iii) There has been insufficient appreciation of the role and contribution of different contractors and other participants in project construction to the effort as a whole. This has resulted in lack of coordination during the construction phase.
- (iv) Few project managers have had the necessary staff assistance of well-equipped planning cells with the result that new scientific techniques have not been used in construction planning.
- (v) In many instances, major items having a critical bearing on the completion of the project, like earmarking of necessary foreign exchange and ordering of equipment and materials having long lead-times, were not adequately disposed of, and the necessary advance action was not taken during the pre-construction phase.

7.13. As regards the planning and scheduling techniques used so far, it appears that most of the projects have used only the more simple and conventional ones such as Gantt or Bar Charts. Though widely used in the past, such techniques are hardly sufficient for controlling the large and complex construction tasks of today. The Bar Chart, for instance, does not reveal the inter-relationships between, and the mutual dependence of, the various tasks and activities that go to complete a project. The management, thus, are unable to make an accurate estimate of the time required for completion.

Suggestions for Improvement in Construction Planning

7.14 We suggest that once a project has been approved on the basis of the feasibility study, systematic and thorough planning of the required construction programme should be undertaken before starting actual construction. Planning at this stage should include the preparation of detailed technical and management plans that will form the basis for actual construction. In fact, these plans should form part of the detailed project report. The detailed technical plan will be, more or less, an elaboration of the initial project plan drawn up at the time of the feasibility study.

7.15 Recently, new techniques have been developed as powerful management aids, e.g., the Programme Evaluation and Review Technique (PERT) and the Critical Path Method (CPM). These techniques, commonly known as net-work techniques, are of great assistance to management in formulating the overall master plan

and depicting all the pieces of work required to complete a project, their sequence, inter-relationship and mutual dependence. This helps the management to coordinate the efforts of different agencies participating in project construction, plan for optimum utilization of resources (men, money and materials), draw up realistic schedules based on requirements and availability of resources and make a more accurate estimate of the time required for construction. In the construction of a project, all activities are not equally critical to its completion on schedule. With the help of net-work techniques, management are enabled to identify those elements of project construction which are critical to its completion on time and to focus attention on such elements. The Committee on Plan Projects in the Planning Commission have had a manual compiled on 'Planning and Scheduling with Net-Work Techniques (PERT/CPM)'. It has also assisted in the application of these systems in certain projects. Several of the larger undertakings have already brought these techniques into use. We recommend that for each project involving a sizable investment, say of Rs. 5 crores and above, a complete master plan of construction should be drawn up with the help of these net-work techniques.

Preparation, Award and Implementation of Contracts

7.16 As the bulk of the work on a project is generally carried out under contract, one of the early and most important steps which project authorities should take before the work of construction begins is the planning and scheduling of contracts. The completion of a project on time and within cost estimates depends, to a large extent, on proper planning and coordination of each and every contract in the project. It is, therefore, necessary that the effort under each contract is scheduled and coordinated within the framework of a master plan. The contracting process may be divided into three broad steps, namely:

- (i) preparation of contracts;
- (ii) selection of contractors and award of contracts; and
- (iii) execution of contracts.

7.17 Some studies have been conducted in this field by the Committee on Plan Projects. We have examined the conclusions contained in the study reports in this respect. A summary of the more important deficiencies that have been noticed and some illustrative factual information contained in these reports appear in

Annexure VIII. We shall now refer to the main deficiencies and formulate our suggestions for improving the procedures in each of the three stages in the contracting process.

Preparation of Contracts

7.18. The following are the main defects observed in the preparation of contracts:

- (i) The obligations of different parties to the contract have been often inadequately defined resulting in insufficient understanding of the terms of the contract, leading, in turn, to delay and disputes.
- (ii) The contract documents do not generally include realistic contract milestones or key events based upon a master plan and schedule of construction. Such completion dates as are specified are not linked with the work of inter-dependent contractors.
- (iii) Often, a Letter of Intent is issued before a firm time-schedule has been agreed upon with the result that a detailed schedule is either never established or is worked out as a kind of compromise between the parties, nearer to the wishes of the contractor than that of the management.
- (iv) Generally, sufficient control clauses are not written into the contract document to enable management to obtain progress reports from the contractors at regular intervals. This makes it difficult for management to check whether the progress of the contractor's work is keeping pace with the overall schedule of work.
- (v) In many cases, penalty clauses have been found to be ineffective because the conditions under which they would come into effect were not clearly defined. Clauses providing for incentive bonus have either not been provided or have not been confined to elements critical to the completion date of the project.

7.19 It is evident that prior planning has a direct bearing on the speed and efficiency of execution of contracts. As the control and coordination that the project management can effect are directly related to the conditions incorporated in the contract documents, it

is essential that sufficient time and attention is devoted to the preparation of contract documents which have to bring together all the contracting parties and facilitate speedy and efficient execution of the construction work. We recommend that each contract should have a schedule based on its own net-work plan which should be consistent with the master plan and the overall schedule of work. We feel that this exercise should be done with respect to each contract, and the contractors should be called upon to furnish a work plan and schedule along with their tender.

7.20 We recommend that for various types and items of work, model contract papers should be drawn up for the use of project authorities so that vagueness in defining the obligations of different parties is avoided. The schedule of work to which a contractor is required to adhere should form a part of the contract document. It should, in no case, be left to be decided after the Letter of Intent is issued or contract documents executed. In drawing up the various conditions to be written into the contract, the management's responsibility to monitor progress at intervals should be kept in view for incorporating suitable control clauses in the contract.

7.21 We feel that contracts should provide for incentives as well as penalties, carrying positive incentives for good and timely completion of work and penalties for failure to keep to stipulated completion dates or work specifications. The penalty clauses will be more effective, if instead of being linked to a single completion date, they are linked to key stages of work, in particular those stages which also form points of contact with work being done or subsequently to be done by other contractors. This will enable management to ensure adherence to the time schedule when the completion of work depends upon a number of inter-related contractors.

7.22 In certain contracts, it would be worthwhile to provide for the payment of an incentive bonus for completion of the contract on a date earlier than that specified in the agreement. We suggest that such incentive clauses should be included in the contracts whenever such an earlier completion of the contract would promote an earlier completion of the project as a whole and which is of additional economic value in the overall context of the economy. If a net-work plan has been drawn up and the critical path in the net-work determined, then all that need be done is to provide for incentive clauses in the contracts relating to the elements of work falling on the critical path of the net-work.

Number and Size of Contracts

7.23 In planning contracts, attention also needs to be given to the number of contracts into which the work on the project can be best divided. Too many contracts increase the problems of coordination, whereas too few contracts magnify the impact of failure of any one contractor. In addition, planning of contracts has to take into consideration the most suitable size of the contract. While there are few standard rules to determine the right number and size of contracts, the tendency to encompass each major component of work under a single contract should be avoided.

Award of Contracts

7.24 Studies have revealed two major deficiencies in this area:

- (i) administrative delays have taken place at various stages before the completion of the contract document, namely, in the preparation and scrutiny of tenders, selection of contractors and signing of the contracts; and
- (ii) lack of clear and reliable information regarding the performance capabilities of various contractors.

7.25 As will be apparent from the illustration given in Annexure VIII, a very substantial amount of time elapses before the contractor can start the actual work after the issue of the Notice Inviting Tenders. In the case of the various units of the Trombay Fertilizer Plant, this period of time worked out to about two years on an average. The time taken in the scrutiny of the tenders ranged from 7 to 16 months for the various plants. We recommend that for quick decision-making, consistent with adequate analysis of the various proposals, a Project Group having adequate technical competence should be constituted at the outset and should include such representatives as may enable the Group to acquire the requisite authority to select the most suitable contractor without having to make inter-departmental references.

7.26 As regards the selection of contractors, the common practice of accepting the lowest bid without sufficient examination of the contractor's capability to perform the job satisfactorily has often resulted in unsatisfactory performance and at costs higher than those anticipated. Selection of the most suitable contractor should not depend on the tender bid alone. A significantly low bid might be an indication that the bidder has not allowed for the same amount or standard of work as the others. We are of the view that extremely

low bids as compared to the quotations of other bidders need to be carefully scrutinised, and the performance capability of the contractor making an inordinately low bid should be subjected to proper scrutiny.

7.27 The reluctance on the part of the management to reject the lowest bid, understandable to a certain degree, poses the main problem in the selection of the most suitable contractor. The problem can be met to some extent by providing for sufficient documentation to support the decision of the management in rejecting the lowest bid. This has not always been possible because performance data regarding contractors is not being compiled on a systematic basis and is not readily available. We recommend that, on the lines on which contractors are graded in different categories by the established departments of the Government, like the CPWD, MES and railways, public undertakings too should grade contractors according to their performance capabilities. We suggest that the compilation of performance data should be on a more refined basis than what is required for grading. The data should throw light on the contractors' capacity for executing different kinds of work. In this connection, the idea of a national register of contractors was suggested to us. We, however, feel that it will be difficult to keep such a dossier up-to-date, and the system might become somewhat cumbersome and create a new bottleneck. We are of the view that the advantages expected from such a national register will be available if information is compiled by the public undertakings on a systematic basis and referred to a central point like the Bureau of Public Enterprises from where it could be disseminated to other public undertakings.

7.28 We have noticed that quite some delay takes place in the signing of the final contract after the issue of the Letter of Intent to the selected contractor. Often this delays initial payment, and, therefore, the execution of work. A contractor having received the Letter of Intent is likely to be less flexible in negotiating the terms and conditions of the final contract document. During the period between the issue of the Letter of Intent and the signing of the final contract, management are able to exercise only minimal control over the progress of work. We feel that the period of work under a Letter of Intent should be reduced to an absolute minimum. We suggest that model standard contracts should be drawn up which would much reduce, if not altogether obviate, the need for having work done before the signing of the final contract.

Problems of Construction Management

7.29 To achieve the timely completion of the project the management have to exercise proper and regular control over the work. This can only be accomplished by the periodic checking of the progress against the original schedule. The main factor diluting management control in this respect has been the lack of proper information systems. The study reports brought out by the Committee on Plan Projects reveal the following weaknesses in this field:

- (i) Although construction progress reports on existing projects are prepared in great detail, they frequently fail to compare the actual progress against that planned.
- (ii) Many of the existing reports exhibit common deficiencies, namely, lack of timeliness, inability to forecast final completion dates, and inability to forecast final cost position.
- (iii) In addition, the reports used by many projects obscure, through too much detail, the significant information required by management.

7.30 The main reasons for the above lacunae are that there is a tendency to call for too much detailed information from the field and the fact that inter-relationships between different phases and elements of construction are not determined and defined. The network techniques like PERT/CPM have the advantage of providing a sound base for building up an effective information and reporting system. We recommend the adoption of these techniques to facilitate not only planning for construction but also control, including reporting, in the construction phase.

Reporting and Cost Control

7.31 Besides checking the progress of construction, management have also to take all steps to minimise the amount by which the final cost of the project may exceed the original estimates. For this purpose, it is necessary to devise a parallel reporting system for controlling costs. A conclusion arrived at by the Committee on Plan Projects after study of selected undertakings was that the performance on many projects could have been much improved with the addition of such financial reports as could equate physical progress with financial expenditure and which permitted forecasts of final project costs to be derived from them. In order to assess the demands for funds, project management and also the Government.

need a continuous and accurate forecast of the future cash requirements of the project. We suggest that the reports should compare the estimated cost of each major item of work with the actual cost to date. We recommend that the periodical reports furnished on a monthly or a quarterly basis should make projections of the estimated final costs and indicate the expected overruns. This would help to highlight areas where overruns are expected and enable management to take corrective action, if possible, in time.

7.32 Excluding the increases in cost resulting from changes in the scope of the work itself, the more common factors that have contributed to cost overruns are excess staffing during project construction, the need to purchase expensive construction equipment, increase in the duration of the project and poor initial estimates. To a large extent, each of these is traceable to inadequate or deficient planning. We suggest that before starting construction project management should work out a realistic time schedule so that the staff requirements do not get inflated due to an attempt to follow an over-optimistic construction-schedule. Adequate manpower planning on a phased-requirements basis and minimizing the quantum of work to be done departmentally will also help to keep the staff strength from increasing unduly.

7.33 As regards construction equipment, the problem is that the total cost of the equipment ordered for the project is loaded on its capital costs despite the fact that most of the equipment could still be utilized. Furthermore, new projects too procure their own equipment, often by importing it from abroad even when the equipment necessary is available and lying idle with other public undertakings. There is hardly any coordination between different public undertakings to ensure full and economic utilization of expensive construction machinery. We feel that with the setting up of multi-unit corporations, a more rational and fuller utilization of expensive construction machinery will become possible as the corporation will be in a position to move this equipment from one project to another as and when requirements arise. We suggest that, in the meantime, the Bureau of Public Enterprises should draw up an inventory of the surplus or idle construction equipment lying with projects that have already gone into operation to enable its utilization in projects still under construction.

7.34 We have referred to a number of projects where the duration of construction was much longer than originally estimated. We

have already stressed the need for adequate pre-construction planning to avoid unexpected breaks in the flow of construction activity. Besides resulting in direct increases in cost, delays after the construction has begun also result in the delayed realisation of benefits from the project. The loss of production caused by this delay is considerable, particularly in the case of the larger projects. We would suggest that proposals for funds, import clearance or matters affecting the flow of work on projects which are in an advanced stage of construction should be accorded the very highest priority by the controlling Ministry, the Ministry of Finance and the other Government agencies concerned.

7.35 The deviations from the original cost estimates should be got examined wherever they appear to be appreciable. We feel that quite often the estimates are pegged at low levels in order to make a project look more profitable than it actually is. The compilation of detailed information about such deviations will help in making future estimates more reliable. Such information should also be communicated to agencies connected with the technical scrutiny of feasibility studies of similar projects.

Project Completion Report

7.36 During the construction of large and complex projects, managerial personnel, including the engineers associated with these projects, acquire a good deal of valuable experience and knowledge. We feel that this experience and knowledge should be carefully recorded and disseminated for the benefit of other managers and engineers. After a project has been completed, the financial, administrative and technical personnel concerned should not disperse without having recorded and compiled the knowledge and experience on the construction problems peculiar to the specific project, which they have gathered through years of hard work, at great expense and often under very difficult and trying conditions.

7.37 The preparation of a comprehensive completion report for each major project has been mentioned in the Third Five Year Plan. The Committee on Public Undertakings in their report (December, 1965) on planning of projects has observed that such reports had not been prepared in the case of many public sector projects. We endorse the suggestion that in the case of future projects, arrangements for the ultimate preparation of the Project Completion Report should be planned and provided for at the very commencement of the construction phase, so that all the relevant and useful material at

every stage of project construction becomes available for sifting, compilation and analysis. Preparation of the completion report should be started while the works are in progress and events fresh in memory. This report should be written in such a manner as to serve as a useful guide to any agency entrusted with the execution of similar projects.

Construction Organization

7.38 We have mentioned earlier in this chapter the inadequacy of staff assistance to the project manager during the construction phase. We suggest that a staff group, responsible to the project manager, for coordinated planning and control, should be set up at the pre-construction stage itself. Certain larger undertakings have already set up planning and development wings which are performing this role. There is considerable need for high level coordination and control to ensure the smooth progress of the work done by a number of contractors and agencies. The need for an effective organizational set-up to ensure this is, therefore, obvious. This centralised staff group should be attached directly to the chief executive of the project, but it should have the role of a service organization helping those in charge of execution. It should not be looked upon as a controlling agency.

7.39 We would once again refer to the problems that smaller undertakings face in acquiring and maintaining such staff groups that are essential for efficiency. Many of these undertakings are not in a position to afford such staff. In addition to the problem of maintaining such a group of persons is the problem of insufficient utilization of the expensive construction equipment. Once the constitution phase is over, substantial construction machinery becomes surplus which though needed somewhere else may continue to lie idle with the project that has gone into operation. In the same way, a number of qualified technical personnel having experience suddenly find themselves surplus. To some extent, they can be absorbed in maintenance jobs in the same undertaking or in some other undertaking, but the experience gained by them goes waste unless by chance they find berths in a new project under construction. As a solution to this problem, a suggestion was made to us that there should be a central agency, even a Ministry of Construction, which could maintain a corps of engineers on a regular cadre and ensure their rational deployment and utilization. In our

view, this will lead to undue centralisation, and create new bottlenecks for the public undertakings. In fact, these problems may disappear or become much less acute when the large multi-unit corporations suggested by us are set up for each industry in the public sector. The corporations will be much better placed to maintain a nucleus corps of experienced engineers ready at hand whenever they are needed on a new project.

CHAPTER VIII

PERSONNEL

1. Top Management

8.1 The effectiveness of the top management is the most decisive of the factors on which the success of any enterprise depends. The larger the enterprise and the more complex its operations, the greater is the responsibility attaching to the top management. Public enterprises generally being very large concerns and having both commercial as well as social obligations to fulfil are undoubtedly very complex organizations. The vital importance of entrusting management of these enterprises to a team of competent persons cannot thus be over-emphasised. On the determination of issues like the composition of the management boards, the qualifications, recruitment and terms of service of the chairmen, board members and top officials of the undertakings depends the success or failure of a public enterprise.

Existing Position

8.2 We have already described in the third chapter of our Report the present composition of the boards of public undertakings, the manner of selecting chairmen and members of the board, the general preference for the policy-making type of board as well as the large number of board memberships held by Government officials on a part-time basis.

8.3 All the appointments to the management board of a public undertaking are made by the Government except where there is an element of outside participation in the capital. In addition, the Government also make or approve the appointments to posts carrying salaries above Rs. 2000 per month (in some cases this level is Rs. 2250 or even Rs. 2500 per month). Appointments to the post of the Financial Adviser/Financial Controller are either made by Government or require their approval. In the case of non-officials appointed as part-time members of the Board, the procedure has not been uniform in the sense that sometimes the Chairman of the undertaking has been consulted while in other cases the appointments have been made without any such consultation. No qualifications have been prescribed for the board members. Information gathered from the Ministries indicates that in a few cases they did

not have adequate information about the qualifications and previous experience of the non-officials appointed to the boards by the Ministry even after the appointments had been made.

8.4 In 1965 a Committee of Secretaries headed by the Cabinet Secretary considered questions relating to the manning of top posts in public enterprises and devoted special attention to the questions of remunerations, terms of service and relationship with the public services. The posts covered related to the full-time appointments made by the Government to the board and to posts like General Managers, Financial Advisers etc. As a result of the measures suggested by this Committee, steps have been taken recently to systematise the procedure for making appointments to the top posts in public enterprises. The Bureau of Public Enterprises is currently engaged in the task of drawing up panels of suitable names for these posts.

Appointments to the Board

8.5 We feel that in the past insufficient attention has been paid to the very important task of making appointments to the boards of public undertakings. Appointments have been made *ad hoc*, no effort having been made to look for persons of suitable calibre and experience before the urgent need to fill a vacancy was felt. No systematic efforts appear to have been made to scour all fields in which men of the requisite competence and experience may have been found or select the most competent men available for these jobs. It is essential, in our view, that the whole procedure for the appointment of the full-time as well as the part-time members of the board should be systematised. The Bureau of Public Enterprises can collect information on the qualifications, experience and record of achievements of those who can be considered for appointments to these boards and maintain a register of persons with the requisite competence to function as full-time members of the board. We feel that the procedure that is at present adopted by the Bureau can be further improved upon by associating some of the chief executives of important public undertakings with this work and benefiting from their personal knowledge and experience in drawing up the panels of suitable names.

8.6 In the context of our proposal for amalgamating the existing undertakings into larger and fewer multi-unit corporations, two significant points have to be noted: first, the functions proposed to be

assigned to these bodies cannot be effectively discharged by a policy-making type of board; and secondly, the number of persons needed to act as board members will be considerably reduced. The proposal to set up multi-unit corporations is, thus, not only desirable for the reasons indicated in the third chapter of this Report but is also conducive to the solution of the problem of finding and training a sufficient number of competent top managerial personnel who can function as full-time members of the boards of public undertakings.

8.7 We suggest that a mixed type of board, having a few full-time functional members, two Government representatives and a few part-time non-official members, should be adopted as the general pattern, except for the very small enterprises. From the personnel point of view, selections for appointment to a mixed type of board can be divided into three categories as below:

- (i) Chairman and full-time functional members of the board;
- (ii) Government representatives; and
- (iii) part-time non-official members.

Chairman and full-time Board Members

8.8 For the first category, the ideal situation will be one in which persons who have grown up with and in the enterprise can occupy the highest positions of managerial responsibility in the enterprise. This is important from every point of view especially that of the morale and incentives and the opportunities for promotion and self-expression that employees look for in a public undertaking. Persons entering the service of a public undertaking should have the reasonable expectation that if they worked hard and well they will have the opportunity for promotion to highest posts ultimately reaching the very top. However, it has to be admitted that such a ladder of promotion cannot be built up in a day. It takes a good deal of time before an undertaking throws up sufficiently experienced and senior men to fill up directorships on its board. Till such time as this is achieved, it will be necessary to look outside the enterprise as well, to pick out suitable persons to act as the chairmen and full-time board members of public undertakings. Men with the necessary aptitude and competence may be found from the body of Government servants, leading industrialists and businessmen and professional managers and specialists in the private sector. In fact, it is advantageous to introduce from time to time an outside element at the top management level. In some of the foreign countries, notably the

United Kingdom, Chairmen of the public corporations have often been appointed from amongst senior Government servants, private businessmen and leading trade unionists; in each case the person selected being required to sever his connections with his past organisation in varying degrees—the civil servants who become board members cease to be civil servants, the trade unionists give up their trade union jobs and private businessmen declare their business interests and dispose of such interests as the Minister may require.

8.9 We are of the view that it would be of great advantage to follow the English example in this respect, particularly in the case of Government servants. A serving Government officer, looking for his prospects outside the sphere of public enterprises may suffer from a duality of interest, and may not, therefore, be very well placed to discharge the duties of the head of an autonomous undertaking or a full-time member of the board. We feel that at such senior levels it should not be difficult to make the process of Government servants coming to public undertakings irreversible, because by the time a Government servant becomes eligible for such appointment he will normally be nearing the end of his service career. At that stage he may not be reluctant to quit his parent service on voluntary retirement terms.

8.10 We feel that it is highly important that, while making appointments to the board, preference is given to the officers coming from within the undertaking. For this purpose, a career development scheme and a definite ladder of promotion should be evolved in each undertaking. The smaller undertakings, that do not have enough promotion opportunities, should be offered the benefits of a common manpower scheme which will provide inter-undertaking mobility for their senior managerial and technical personnel and offer the benefit of wider promotion prospects as well as greater variety of experience.

8.11 We feel that whenever it is necessary and desirable to appoint a Government servant as a chairman or board member, the attempt should be to select a person who has had experience of working in a public undertaking or a similar establishment, or experience in commercial or financial matters which will enable him to properly discharge the responsibilities entrusted to him. We recommend that in such cases, the Government servant should be required to sever his connections with the parent service.

Government Representatives

8.12 While appointing representatives to the boards of public undertakings, the administrative Ministry, as also the Finance Ministry, should take care to see that the persons nominated are not so burdened with the substantive work of the Ministry that they find it difficult or impossible to play a useful part in the board meetings. At present, Ministries' officials are made to serve on a large number of boards with the result that they are unable even to find time to attend the meetings. With the regrouping of existing enterprises under larger multi-unit corporations, this problem will be considerably reduced and a Ministry may not be called upon to send representatives to many boards. A Ministry may normally need to send its representatives to only one management board. However, we feel that when multi-unit corporations that we have proposed are set up, the representatives of the Ministries will have to be sufficiently senior, say, not below the rank of a Joint Secretary. In view of the autonomy and the size of the corporations, only an officer this rank may be able to speak with authority on behalf of the Ministry.

Part-time non-official Members

8.13 In selecting the part-time non-official members of a board, the Government may take care to ensure that a person so appointed does not have any interest that conflicts with the commercial interest of the public undertaking on whose board he is called upon to serve. Further, he should not be a person who has no faith in the value and role of public enterprise. At present, no qualifications have been laid down for persons who may be appointed on the board. The result has been that the Ministries have made very little effort to spot or select the most suitable persons available for this purpose. Nor have any steps been taken to draw up lists of suitable persons with the necessary experience, aptitude and competence. In the United Kingdom, the statutes setting up public corporations prescribe the qualifications that every member of the board should have. Generally, these are that a person should have experience of the industry or of industrial, commercial or financial matters, applied science, administration or the organization of workers. The Estimates Committee has more than once recommended the laying down of similar qualifications for the boards of our undertakings. The

Estimates Committee (52nd Report, March 1964) had also recommended that the chairmen of public undertakings should be consulted on the appointment of board members, particularly the non-official members of the Board.

8.14 We feel it would be desirable to prescribe certain general qualifications for the part-time non-official members of the board on the pattern that obtains in the UK. We also feel that a board cannot be effective unless it functions as a team. We, therefore, recommend that the chairman of the public undertaking should be consulted before the responsible Minister makes appointments to the Board. In fact, this convention should be adopted for all appointments except, of course, the nomination of Government representatives.

Appointments to Top Posts—The Background

8.15 The words 'top posts' are being used here to signify posts other than part-time board membership to which appointments are made by the Government. These posts in the case of Government companies include whole-time chief executives, General Managers, Project Administrators, other full-time Directors and Financial Advisers. In the case of the statutory corporations diverse practices have been adopted. For instance, Government appoint only the Chairman in the case of the LIC, while in the case of the air corporations, appointments to the post of the General Manager and even the heads of departments require the Government's approval.

8.16 The position regarding these top management posts in public undertakings, both in the statutory corporations as well as in Government companies, was examined by the Committee of Secretaries referred to earlier. The Government orders issued on the basis of this examination on 13th October, 1965 drew up four schedules into which 124 top posts in public undertakings were divided. The number of these posts has since been increased to 139 as per details given below :

| | Salary per month |
|---------------------------|-------------------|
| Schedule A . . . 10 posts | Rs. 3500—125—4000 |
| Schedule B . . . 18 posts | Rs. 3000—125—3500 |
| Schedule C . . . 58 posts | Rs. 2500—100—3000 |
| Schedule D . . . 53 posts | Rs. 2000—100—2500 |

Government Appointments—Exclusion of certain Posts

8.17 The posts included in the above schedules also include top posts below the board level. We have suggested in the fifth chapter 109 HA—11.

of our Report that the power to make appointments on posts below the board should be vested in the board itself and not reserved to the Government. In the light of that recommendation we further recommend that the existing schedules referred to in the previous paragraph be revised so as to exclude all posts other than those of the chairman and full-time functional directors. It will certainly be advantageous if the Bureau continues to draw up panels of suitable names for these posts. But this should be treated as a kind of service that the Bureau renders to the public undertakings, there being no compulsion for the boards of these undertakings to confine their choice to the names in the panel available with the Bureau. For the posts of Financial Advisers/Financial Controllers, we have suggested that appointments should be made by the board in consultation with Government. For these posts it will, in any case, be pegged to the scales obtaining in Government. The comparative for appointment and for the public undertakings to make full use of them while making the appointments.

Salaries of Top Executives

8.18 Another point for reconsideration seems to be the salary paid to the top executives. It is well-known that the salaries in the public enterprises are much less than those obtaining in the private concerns. We recognise that it may not be possible for the public sector to compete with the private sector in respect of the emoluments that it pays to its top executives. This will certainly be difficult in view of the salary structure adopted by Government as a matter of public policy. However, it is still necessary to ensure that the salaries offered to the top executives in public undertakings approximate to the rate for the job or at least bear a semblance to those offered in the private sector. If the wage structure in the public sector falls far below what obtains in the private sector, it will be difficult for public undertakings to compete for scarce managerial talent with their counterparts in the private sector. It cannot, therefore, be suggested that salaries in the public sector should be pegged to the scales obtaining in Government. The comparative position obtaining in the U.K., will be of interest. The salaries paid to the most senior civil servants in the United Kingdom are*—

| | Salary per annum |
|---|------------------|
| The two Joint Permanent Secretaries to the Treasury | £8,800 |
| Secretary to the Cabinet | £8,800 |
| Permanent Secretaries <i>i.e.</i> , Heads of Ministries | £8,600 |

*Civil Service List and Imperial Calendar.

8.19 As against this, the salaries paid to the members of the boards of public corporations in the U.K. are much higher. For instance*, the Chairman of the British Overseas Airways Corporation draws an annual salary of £ 15,000; the Chairmen, British Railways Board, the National Coal Board and the Electricity Council draw an annual salary of £ 12,500 each; and the Chairmen of the London Transport Board, British European Airways Corporation, the Central Electricity Generating Board and the Gas Council an annual salary of £ 11,000 each. The full-time Vice-Chairmen of these Boards are paid about £ 10,000 each per annum and the full-time Members draw salary in the scale of £ 7,000—9,500 per annum. It is thus clear that in the U.K., not only the chairmen but also the vice-chairmen and even the full-time members (after a time) draw salaries higher than those paid to the senior-most civil servants.

8.20 In the context of our proposals for larger multi-unit corporations, the need for paying higher salaries to the chairmen and full-time functional members of the multi-unit corporations will be all the greater. Without going into the question of the general salary structure, we would like to stress the great need for an upward revision in the salaries paid to the top executives in the public sector. We feel that the chairmen of the proposed multi-unit corporations should be given a salary equal to that admissible to the Governor of the Reserve Bank of India (i.e. Rs. 4,500 per month). On similar considerations, we feel that the salaries for the full-time functional directors of the proposed multi-unit corporations should be in the neighbourhood of Rs. 4,000 per month. We suggest that the top executives should also be given fringe benefits like free furnished house, free transport etc., as is the general prevailing practice in the sphere of industrial and commercial management.

Frequent Changes in Top Posts

8.21 The chairmen of Public Undertakings and General Managers of the units have been changing very frequently in the past. This was highlighted by the Estimates Committee in their 52nd Report (Appendix III to the 52nd Report gives a detailed statement of the changes made in these posts). In a few cases, the tenure of the chairman was extremely short, in some cases as short as three months. The position with regard to Managing Directors and the General Managers is similar. On the other hand, key posts in the undertakings have remained vacant because of the long time taken

*Cmd 2348 December, 1965.

by the Government to find suitable persons and to complete all the necessary formalities to make the appointments. The fact that a post such as that of Chairman or General Manager lies vacant for long has a demoralising effect on the whole organisation and gives a very poor impression of Government's interest in the success of the enterprise. The performance of an enterprise very largely depends upon the direction and guidance given by the chief executive. It is, therefore, essential to maintain sufficient continuity in the direction from the top.

8.22 The need to avoid frequent changes in top posts hardly needs reiteration. We believe that the situation will improve considerably when the deputation of Government servants on top posts becomes irreversible, and the management boards are empowered to make appointments to all senior posts below the board level. As for the posts of chairman and full-time functional members of the board, we recommend that a fairly long period of tenure should be laid down. This would enable the person appointed to make a significant contribution on the basis of experience that he gains in that undertaking. We suggest that a period of five years should be regarded as the minimum for the chairman and full-time members of the board, and a period of not less than two years for the part-time non-official members.

2. Personnel Management

8.23 We are aware that this subject is also being studied by another Team, viz., the Study Team on Personnel Planning, Staffing in Public Sector Undertakings and Personnel Management. We have, therefore, dealt only with the principal and more important problems that public enterprises face in such matters as manpower, recruitment, promotion and training, general conditions of service, overstaffing and flight of personnel. While dealing with these problems we have also considered the changes and improvements that will be brought about when the multi-unit corporations that we have proposed are set up in major areas of enterprise.

Dependence on Deputationists

8.24 When the first public sector projects were set up, there was no alternative to drawing upon the Government services and the private sector for manning the managerial and technical posts in the public enterprises. An Industrial Management Pool (IMP) was constituted under a Government Resolution in November 1957 to

cater to posts of a non-technical nature in the public enterprises. The dependence on the Government services, however, continued even after the formation of the IMP. The Estimates Committee in its 52nd Report (March 1964) on Personnel Policies of Public Undertakings pointed out the fact that of about 800 top posts in 54 undertakings, over 190 were being held by serving or retired officers of the Central Service besides the posts held by State Governments' Officers. At that time, officers of the IMP were holding 105 posts.

8.25 The information obtained from the public undertakings in this respect reveals that the proportion of posts held by deputationists is generally higher at the middle and higher levels. Data furnished by 29 undertakings relating to posts carrying a starting salary of Rs. 700 per month and above indicates that, of the 5971 such posts as on 31-3-1966, 340 i.e. 6.2% were occupied by deputationists. The percentage was highest in the case of the finance and accounts organization where 38% of the posts of this category were manned by deputationists. On the personnel and general administration side the percentage was 33, and in the case of scientific and technical personnel only about 3% posts were held by persons on deputation. These figures demonstrate the continued dependence of the public undertakings on deputationists for manning posts on the finance and accounts side and in the personnel and general administration organization.

8.26 The system of deputing Government officers to public undertakings has come in for general criticism. A basic objection that has been made against this arrangement is that* "the officers are a little casual in their approach to work because if they are not successful, they can always go back to their parent departments". It is also said that it is difficult for officers on deputation for short periods to acquire a sense of loyalty to the undertaking and that an admixture of the undertakings' own employees and some deputationists from outside makes it difficult for the management organization as a whole to develop a sense of team spirit.

8.27 While there is considerable force in these objections and while we attach great importance to developing managerial resources within the public sector, we feel that for some time to come, public enterprises, particularly new projects, will have to draw on deputationists for manning posts at middle and higher levels of management. Recognising this fact, we have attempted to identify the

*Estimates Committee (52nd Report)—March, 1964.

more harmful features of the existing arrangements regarding deputation and suggest measures for eliminating these defects or reducing their effect.

8.28 We suggest that whenever it becomes necessary to obtain officers from Government services, the attempt should be to encourage permanent absorption in the undertaking and avoid the situation where posts are manned by one deputationist after another. We feel that there is a good case for liberalising the service rules to facilitate the absorption of deputationists at any level in the service of the undertaking; in particular, rules should be amended to enable deputationists to sever connections with the parent department without losing the accrued leave, pension and other retirement benefits.

8.29 A common problem being faced by many undertakings is that the period of tenure of the deputationists is often too short and does not enable the enterprise to derive the benefit of the experience gained by the deputationists. We suggest that the term of deputation should normally be for a period of 4 to 5 years. It should be possible to review and terminate extreme cases of maladjustment at the end of the first year itself. But we are of the view that a term shorter than 4 or 5 years is not sufficient for an officer to learn the business of the undertaking and then put in a useful term of service before reversion to the parent department. We recognise that extending the term beyond five years may not be desirable as the officer will practically lose all touch with his parent department. Moreover, after such a length of time, it should be possible both for the public undertaking as well as for the officer to decide whether his permanent absorption in the undertaking was not desirable and feasible.

8.30 A difficulty in securing a sufficiently long term of deputation is that an officer has little choice but to revert to his parent service if failure to do so would result in his losing a chance of promotion in his own department. Many undertakings have indicated that they find it very difficult to retain the services of deputationists for this reason. Hindustan Aeronautics Ltd, where a number of IAF officers are serving on deputation, has been experiencing this difficulty in considerable measure. We suggest that the existing rules and orders on the subject should be modified to enable deputationists to serve a minimum four-year period, extensible by a further year or so at the request of the public undertaking. In case an officer becomes due

for promotion in his parent department, the undertaking should be given the option of granting him promotion in its own organization if it wishes to retain the officer's services.

8.31 We feel that a certain advantage can be derived from the system of deputation during the time for which it continues for lack of a practical alternative. The deputationists having had experience of working in the public undertakings will in our view be better equipped to do their job in the *Ministries* concerned with public undertakings. We suggest that this consideration should also be kept in mind by Government while making postings to the concerned *Ministries*.

Conditions of Service

8.32 The position in this respect, from the standpoint of Government control, differs as between statutory corporations and Government companies. While the Acts setting up the corporations require that rules regulating the terms and conditions of service of their employees will be drawn up with Government approval, there is no such restriction in the case of most Government companies. The Estimates Committee had in their report* brought out in March 1964, cited 18 undertakings (all Government companies), most of which had been in existence for over five years, but which had not laid down these terms and conditions. The Committee had recommended that Government should examine whether conditions of service should not be subject to their approval in the case of Government companies as well.

8.33 The statutory corporations, particularly Air India, have indicated to us the great difficulty experienced by them in having to go up to Government for approval of any intended alteration in the terms and conditions of service of their employees. We are of the view that insistence on prior Government approval in these matters leads to undue rigidity as the management have to go up to Government wherever they intend to alter these terms and conditions. We suggest that even the statutory corporations should be exempted from having to seek prior Government approval in these matters. We feel it is sufficient for the Government to lay down certain model rules which could be adapted by the undertakings to suit their individual requirements.

*Para III of the 52nd Report of the Estimates Committee.—March, 1964.

Pay and Allowances

8.34 The 52nd Report of the Estimates Committee pointedly refers to the fact that the Government has not laid down any guidelines to help public undertakings fix the basic scales of pay for different categories of posts. The Committee also points out that the public undertakings are following different practices as regards allowances and other benefits and that there is no uniformity in such matters as dearness allowance, deputation allowance, project allowance, conveyance allowance, and retirement benefits. On all these issues the Estimates Committee recommended examination by a high-powered committee with a view to ensuring uniformity.

8.35 It is true that ensuring a certain degree of uniformity in the public undertakings is a desirable end, but enforcement of a uniform pattern may neither be advisable nor practicable in view of the number and variety of jobs. The best way to ensure rationality and a degree of uniformity in these matters would be to provide information and expert guidance as an advisory service instead of insisting on prior Government approval or conformity with rigid guide-lines. Government decision on the subject laid on the Table of the House in November,* 1961 stated that while basic scales of pay for different categories of posts should be broadly indicated by Government, the Board of Directors, while being broadly guided by these scales, would be free to fix specific scales for specific jobs. The task of even broadly indicating the basic pay structure is much more difficult than appears at first sight. The number and variety of jobs in the public undertakings is so large and the requirements for the specialised skills is extending at such a rate that it might well be argued that the task would require a regular Pay Commission. Indeed this was the reply† given to the Estimates Committee by the Additional Secretary, Finance during the Committee's examination of the personnel policies of public undertakings.

8.36 We have already suggested that advising public undertakings, particularly the ones that are newly set up, in the matter of service conditions, rules, pay scales etc. should be one of the principal duties of the Bureau of Public Enterprises. It hardly appears worthwhile for the Government to go in for a comprehensive examination of pay scales with a view to suggesting uniform structures because it would inevitably tend to restrict managerial autonomy in these matters as

*Para 121 of the 52nd Report of the Estimates Committee—March, 1964.

† Para 123 of Report *ibid.*

well as create the feeling that questions and disputes relating to pay scales would be, in future, settled by a Government agency. The best course, in our view, would be for the Bureau of Public Enterprises to collect information from different public undertakings and furnish the information to all the public undertakings together with expert advice on matters connected with terms and conditions of service. This information and assistance will also be available from the Bureau to the controlling Ministries and the Ministry of Finance. Government should, thus, have no difficulty in ensuring that public undertakings did not adopt different scales of pay for the same kind of posts thus paving the way for discontentment or unnecessary migration of personnel. In case any public undertaking goes seriously out of line without due justification, Government will always be in a position to correct the situation, if necessary, by the issue of a directive.

Recruitment

8.37 Public undertakings have so far enjoyed near-total autonomy in the matter of recruitment. The Government did issue a circular on the subject in April 1961, but it did not have the force of a directive nor was it in the form of model recruitment rules. The Estimates Committee in their 52nd Report (March 1964) took note of this fact and pointed out that many undertakings had not even framed any recruitment rules of their own. Accepting the recommendations of the Estimates Committee, the Government, in November 1964, laid down general principles that it wanted Government companies to follow in the matter of recruitment. Along with these general principles, the Government also formulated a set of model recruitment and service rules. We suggest that Government should now ensure that every undertaking formulates and adheres to properly-framed recruitment and service rules along the lines laid down by the Government.

8.38 A major defect in recruitment so far has been the inadequate attention paid in most undertakings to the task of job analysis and the laying down of precise job specifications. Failure to do this has led to unnecessary qualifications being prescribed for certain jobs and the recruitment of more qualified persons, e.g., degree holders, for jobs that could as well have been performed by less qualified persons, such as diploma holders. Other major defects have been the poor phasing of recruitment resulting in promotion bottlenecks and over-staffing resulting from the inadequate attention that was

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devoted to the need for controlling the staff strength in the beginning. We feel that there is considerable scope for improving the system and basis of recruitment in public undertakings. In the ensuing paragraphs we have suggested a few measures that can be taken to effect this improvement.

Personnel Commission for the Public Sector

8.39 One of the suggestions that have been made regarding recruitment is that a Personnel Commission on the pattern of the Union Public Service Commission should be set up for discharging similar responsibilities in respect of jobs in the public sector. The Estimates Committee have made recommendations of this nature from time to time. Reiterating their earlier recommendations, the Estimates Committee in their 32nd Report (1962-63) on the National Coal Development Corporation stated that--

“The Committee consider that the problem is one of reconciling the requirements of public responsibility and regularity on the one hand and adequate business and commercial freedom to the greatest possible extent on the other. They feel that the solution lay in establishing a Personnel Commission similar to the UPSC for public enterprises staffed by people with business experience who understand the personnel needs of the public sector.”

The Estimates Committee* again made recommendations in this respect observing that “such a centralised recruitment for higher posts would enable uniform standards of selection, eliminate competitive bidding for scarce personnel and ensure fairness, besides saving the time and work of the public undertakings”.

8.40 We feel that the setting up of such a Central Commission independent of and outside the public undertakings will seriously affect their autonomy and tend to increase the lead-time in obtaining the personnel urgently required by the undertakings. As it is, public undertakings are experiencing difficulty in recruiting suitable and qualified personnel. Any delay interposed by having to go through a Central Commission is bound to have an adverse effect on managerial performance. Moreover, the reasons advanced in favour of setting up a Central Commission will lose much of their force with the setting up of the multi-unit corporations envisaged by us. The Estimates Committee itself (52nd Report) has noted the possibility

*Para 185 of the 52nd Report of the Estimates Committee—March, 1964.

of setting up Commissions on a regional or industry basis, if it was found that it would not be possible to entrust the work to one Central Commission. We feel that the large multi-unit corporations set up on an industry basis will themselves be able to perform the functions of such a Commission and ensure regularity and uniformity in selection as well as service conditions. There will thus be no need to set up outside agencies for the purpose. We, therefore, feel that it will be neither necessary nor desirable to set up a Central Personnel Commission for the public sector.

Promotions

8.41 Public Undertakings, particularly the Government companies, have been largely free in framing their own promotion policies. Government laid down general principles and model rules in this regard in November, 1964. But, the policies adopted by different public undertakings regarding promotions do not indicate a uniform pattern. In many cases undertakings have not even framed promotion rules; 31 such undertakings were listed in the 52nd Report (March 1964) of the Estimates Committee. We feel that it is essential that every public undertaking formulates a well-defined promotion policy and frames rules on the subject.

8.42 Any good system of personnel administration must recognise the primacy of promotion as an incentive and take into account the leverage of motivation that is inherent in it. It is true that there have been some cases of rapid advancement in the public undertakings. But the fact remains that despite a fast rate of expansion, public undertakings have not been able to take full advantage of the promotion opportunities offered by this expansion. New projects have come up, but the top management posts have been filled either by deputationists or persons from the private sector. For various reasons the persons already working in the public sector have not come up to occupy the top management posts.

8.43 Within the general situation described in the previous paragraph there have been quite a few cases of quick promotions in many undertakings. While referring to this the Estimates Committee cited in particular the Hindustan Steel, Heavy Electricals, Heavy Engineering Corporation, the then Indian Refineries and the National Coal Development Corporation.* The Committee also took note of

*Para 200 of the 52nd Report of the Estimates Committee—March, 1964.

the varying practices followed in the public undertakings, and pointed out that in some a minimum service of one to three years in a grade was taken as the minimum for promoting an officer to the next higher grade, while in others this was not so. It is true that in some of the private concerns there are cases of a very rapid rise in service but even there the larger and the better administered concerns follow a certain set procedure which is known to the employees concerned. Unplanned promotions which take place only because a vacancy has occurred in the next higher grade are not very purposeful. They may even lead to some resentment when one finds that a person may have advanced rapidly in one undertaking because of the fortuitous vacancies that have occurred at higher levels, while equally qualified persons holding equivalent jobs have had to mark time in other undertakings in which vacancies have not occurred to accelerate the pace of promotion.

Lack of Career Development Schemes

8.44 The principal reason responsible for this state of affairs is the fact that public undertakings have not evolved effective career development plans. The National Coal Development Corporation introduced a cadre scheme indicating the number of posts at different levels and prescribing the minimum experience required for promotion from one level to another. The introduction of the scheme is reported to have been of considerable help in attracting technical personnel. The Hindustan Steel, Heavy Engineering Corporation and the Neyveli Lignite Corporation and a few others have also taken steps in this direction. But howsoever carefully such schemes are devised, their effectiveness in motivating the employees will largely depend upon the quantum of promotion prospects that the undertaking can offer to them. It can easily be seen that only the larger corporations that have a sizable number and variety of projects and posts under them and are committed to a policy of growth can offer sufficient prospects to enterprising employees who have the initiative and the will to better their qualifications and prospects. Career development schemes will not, thus, be of much value in small undertakings where the total volume of prospects is not appreciable. It is in this context that the creation of a common pool of officers is often put forward as a solution.

8.45 The employees of any commercial enterprise must have the confidence that the top posts in the enterprise are open to them, that they too can reach these heights by sheer dint of merit and

effort. Whilst an enterprise benefits from the knowledge and experience of persons appointed from outside, from the periodic acquisition of new blood, it has to be recognised that most of the senior and top management posts should be filled by persons from within the enterprise. There seems to be something paradoxical in the situation that obtains today. Public Undertakings continue to depend on deputationists. But, their own personnel, especially after training, leave for jobs elsewhere, often for lack of adequate promotion opportunities in the enterprise. We suggest that each public undertaking should be encouraged to formulate and implement suitable career development schemes in which a phased programme of training at different levels is linked to a definite ladder of promotion.

Industrial Management Pool

8.46 Various measures have been suggested from time to time to cater to the increasing requirements of public undertakings for managerial and technical personnel. The Estimates Committee have often stressed the need for setting up an Indian Commercial & Industrial Service, and suggested that recruitments to this service may be made from among people experienced in business, commerce, industry and trade. A service of this kind has not been constituted. But the Government decided to set up an Industrial Management Pool. This Pool was set up by a Government Resolution to cater exclusively to the non-technical posts relating to general and personnel management, finance and accounts, sales, stores purchase, etc. The initial strength of the Pool was fixed at 200, and selections were made on the recommendations of a Special Recruitment Board.

8.47 200 persons were initially selected in 1959 to the Pool but only 130 of them could be appointed. No further recruitment was subsequently made to the Pool although the public sector and its requirements continued to grow during this period. According to information furnished to the Estimates Committee in 1963-64, a total of 105 Pool officers were holding jobs in the public undertakings at that time. As is apparent from these figures, it has not been possible through the IMP scheme to meet the managerial requirements of the public sector or to build up a common cadre of officers for the purpose. The IMP scheme suffered from an inherent contradiction. It involved the placement of officers by an external controlling authority on posts which were within the

purview of undertakings having autonomous powers of recruitment. It was sought to resolve this contradiction by stipulating that it was neither obligatory for the Controlling Authority (Ministry of Home Affairs) to supply a Pool officer for every vacancy nor for the participating undertakings to accept a Pool officer for a particular vacancy. It is clear that this compromise did not work out successfully. We are of the view that it will not be a feasible proposition to revitalise the Industrial Management Pool in its original form.

A New Pool Scheme

8.48 The problem of recruitment and manning of posts in the public enterprises was recently examined by a Committee which included two members of our Study Team, namely, Shri R C Dutt and Shri S T Raja. We have had the benefit of the report of this Committee. The Committee has suggested a new pool scheme for systematising the manning of middle and higher level posts in the public sector. It has expressed the view that though public undertakings might have to continue to draw on deputationists from the Government services for quite some time, it is extremely necessary to ensure that the enterprises in the public sector built up cadres who would qualify for appointment to the highest managerial positions. The Committee also came to the conclusion that in the matter of recruitment apart from the IMP scheme, each enterprise had been functioning in isolation and this had made it difficult for the relatively smaller public undertakings to attract suitable persons and to offer them sufficient prospects for promotion.

8.49 The Committee has suggested a new Pool Scheme for posts carrying a pay of Rs. 1,300 and above not only in the general management and finance organisations but also on the technical side; public enterprises participating in the Scheme normally encadring 50% of the middle level and higher posts in these branches in the Central Pool. An extract of the report under reference relating to the recruitment and manning of middle level posts has been appended as Annexure IX.

8.50 We have considered the new scheme and find that it is an improvement on the old IMP scheme. It prescribes a more systematic method for the placement of Pool officers on encadred posts in the public undertakings. It also envisages the inclusion of chief executives of public enterprises in the Advisory Committee to be set up under the chairmanship of the Cabinet Secretary. The

Scheme, however, suggests the continuance of the Home Ministry as the Controlling Authority for the new Pool too. We feel that the main advantage of the new Pool Scheme lies in the fact that it will associate chief executives of public enterprises in the Advisory Committee and offer wider prospects to the employees of public undertakings by facilitating inter-undertaking mobility. The scheme will also enable the development of a body of experienced persons from within the public undertakings, who, having had a greater variety of experience, will be better equipped for manning the top management posts—an area where there is acute dependence on deputationists at present.

8.51 We have considered the new scheme in the light of our recommendations regarding the setting up of large multi-unit corporations on an industry basis. In our view, the problem of inadequate promotion opportunities would be considerably reduced with the setting up of these corporations. The large multi-unit corporations will not only be able to offer wider prospects to their employees but also provide them with experience on a variety of jobs in the different units under their control. Even so, it will be desirable, in our view, to have a common pool to meet the needs of such smaller public undertakings as cannot be grouped under any multi-unit corporation and also such of the undertakings of the State Governments as wish to participate in the new scheme. In working this scheme care will have to be taken to ensure that the participating public undertakings do not feel that their autonomy is being abridged and their power to recruit and promote their own employees is being hemmed in. However, we do believe that for their common good individual public undertakings will not be reluctant to voluntarily accept the assistance of an external agency.

8.52 We do not see any need for making the Ministry of Home Affairs the Controlling Authority for this scheme. Work relating to this scheme can be entrusted to the Committee that has been suggested as an advisory committee in the Report (Annexure IX). It can function under the Cabinet Secretary and be serviced by the Bureau of Public Enterprises. As we envisage it, the proposed scheme will lead to the encadrement of a number of posts and the registering of available talent and pooling of suitable officers by a central agency in a manner that facilitates inter-undertaking transfers. It is clear that the new pool scheme presupposes uniformity in the pay scales of the senior posts and the terms of conditions of

service in the participating undertakings. We recommend that the smaller public undertakings should be encouraged to take part in this common pool scheme so that they may be able to overcome the difficulties that they are experiencing in attracting and retaining suitable persons in their organization.

Manpower Requirements and Training

8.53 The availability of trained manpower is a major factor that conditions any programme of economic development. The fact that any programme for securing a steady flow of trained manpower has a very long 'leadtime' makes it necessary that advanced and detailed planning is done to ensure that the shortage of trained manpower does not act as a constraint on development programmes. In certain respects, the problem faced by the public undertakings in this regard is no different from that faced by the private concerns. For instance, a shortage of graduate engineers and diploma holders affects public undertakings and private concerns alike. As far as these categories are concerned, the Fourth Plan (draft outline) envisages an outturn of approximately 166,000 graduate engineers and 254,000 diploma holders by 1970-71 which is expected to correspond to the estimated requirements by that year. The outturn of trained personnel of these categories has been rising at a fair pace and is close to current requirements.

8.54. The problems which are special to public undertakings are generally those which are faced by the very large industrial and commercial concerns. In such concerns, the top management have to be provided with highly qualified and expert staff groups in the fields of planning, finance and accounts, and personnel and labour administration. This puts up the demand for staff of the following categories:

- (i) economists and statisticians including experts in market research and operations research;
- (ii) actuaries, chartered accountants, cost accountants and experts in management accounting;
- (iii) personnel managers and labour welfare officers;
- (iv) experts in materials management; and
- (v) industrial engineers, i.e. experts in work study and productivity.

It is in these fields that public undertakings are experiencing difficulty in getting suitable persons. As the public sector expands, and more projects, at present under construction, come into operation, and the proposed multi-unit corporations are set up, the need for these categories of personnel will increase very rapidly.

8.55 A general problem that affects the public enterprises in even greater measure is the overall scarcity of non-technical managerial personnel. At present, formal training in management is not being regarded as a pre-condition for entry into the management cadres, reliance being placed on in-service and on-the-job training. When the autonomy enjoyed by public undertakings increases, the need for providing adequate facilities for formal training in management will also increase.

8.56 Public enterprises set up as pioneers in new fields are also handicapped by the paucity of specialists and technicians required for that particular industry. Some of the undertakings facing this problem are the Heavy Electricals, the Heavy Engineering Corporation, Hindustan Aeronautics, the Refineries, Bharat Electronics, Instruments and some of the Chemicals plants. To a certain extent, this problem has been solved in the case of the steel plants by devising cooperative arrangements with established units in allied industries like the TISCO and IISCO. In other cases sizable numbers of persons have been sent to foreign countries mainly on in-plant training with the foreign consultants. The Heavy Engineering Corporation alone sent 485 persons abroad in this manner. The Heavy Electricals Ltd is another undertaking to have adopted a similar programme. In these areas which are generally reserved for the public sector, the public enterprises themselves have to fulfil the responsibility for providing training. In fact, training is one field in which public enterprises in other countries, particularly the UK and Italy, have played a significant role. This has been possible because large corporations controlling a number of projects have been able to formulate and operate training programmes from a central point. In India, the smaller undertakings find it hard to establish such training facilities for fear that high costs and insufficient utilization may render the schemes uneconomic.

Assessment of Requirements

8.57 The first step that needs to be taken is a comprehensive assessment of the requirements of public undertakings over a projected time span. This should be followed by the formulation of a

comprehensive plan to provide the requisite training facilities. The replies that we have received from the public undertakings do not reveal sufficient awareness of the importance of this problem. At the instance of the Planning Commission and the Home Ministry, most public undertakings have made a survey of their additional requirements for managerial and technical manpower for the Fourth and Fifth Plan periods. The Directorate of Manpower (Home Ministry) and the Manpower Division of the Planning Commission are collecting information in this respect from the public undertakings. But since most of the undertakings do not have the necessary expert assistance to make fairly accurate estimates of the requirements for the future, we suggest that Government should have the assessment made by the undertakings examined by a body of experts with the assistance of the Institute of Applied Manpower Research. In our view a much more detailed assessment of manpower requirements is necessary to formulate a concrete training programme, particularly for the more specialised branches.

Training Programmes

8.58 The existing training facilities in the public undertakings have been listed in the 52nd Report (March, 1964) of the Estimates Committee. The Estimates Committee has observed that appreciable un-utilised capacity exists in the training schools of the public undertakings. The National Coal Development Corporation have indicated that they have had to close down two training schools because of inadequate utilization. The Estimates Committee has suggested the formulation of a coordinated and integrated training programme for undertakings functioning in similar fields of technology. Although this will be a desirable step and something that will automatically be achieved with the setting up of multi-unit corporations in the major areas of enterprise we feel that what is essential is to base the training programmes on manpower requirements worked out in detail and treated as an important part of the total effort to achieve the manpower objectives.

8.59 Here, we must make a reference to the training facilities set up in recent years by agencies outside the public sector. For non-technical managerial personnel and experts and specialists listed in para. 8.54, a number of institutes have established or increased the required training capacity. Several courses are offered by the Institutes of Management at Ahmedabad and Calcutta, and the Administrative Staff College, Hyderabad. The Institute of

Chartered Accountants has increased its out-turn to meet the expanding requirements. Other agencies like the National and State Productivity Councils, Institute of Industrial Engineers, and the Institute of Cost & Works Accountants, have been arranging training programmes, seminars and discussions. The Management Division (COPP) of the Planning Commission has held a number of training workshops and seminars in recent years. The Ministry of Finance have established a school for the training of cost accountants. The information gathered from these institutes shows that public enterprises have been participating in their programme in varying degrees. But the extent of their participation has not yet become what it ought to be.

A Coordinated Approach to Training

8.60 We feel that the subject of training of personnel can be divided in the following categories:

- (i) non-technical managerial personnel;
- (ii) specialists required by public undertakings to provide the necessary staff support to the management of public undertakings (as listed in para. 8.54); and
- (iii) specialists and technicians required by public undertakings which are pioneers in a new field of industry (as described in para 8.56).

8.61 For the first two categories, it will perhaps be more economical to take full advantage of the training capacity offered by agencies like Management Institutes, and the All-India Institutes of specialists in different fields. If public undertakings set up their own training facilities in fields of general management education or professions for which its own requirements are not appreciable and for which facilities are already available elsewhere, it might lead to duplication and waste of the expert talent required for imparting training. Arrangements will, however, have to be made for in-plant training and induction of new recruits.

8.62 We suggest that public enterprises need not assume responsibility for basic training in general management and training in professions which are required both by the public enterprises and private concerns. The existing training institutes can be more economically utilized for providing this type of training. We feel that at present there is a good deal of duplication in the programmes offered by the various training institutes. However, none of them

offers the requisite training facilities in some of the more specialised fields. We suggest that the Bureau of Public Enterprises, in co-operations with the Ministries concerned, should undertake a survey of the existing training facilities. This can help in avoiding duplication of efforts and identifying areas where training facilities need to be extended or increased. We also recommend that the Bureau, together with the representatives of the Ministries concerned and the public enterprises, should examine the curricula of training offered by different institutes to evaluate the suitability of the curricula to the requirements of the public sector and to ensure that the training imparted is of the requisite depth and quality.

8.63 As we have indicated earlier, the training of personnel of category (iii) (para. 8.60) should be the special responsibility of the enterprises themselves. In discharging this responsibility enterprises operating in the same field of technology can coordinate their efforts. This coordination will, of course, become automatic once a multi-unit corporation is set up in each field. However, public enterprises should take the assistance in the beginning of the various training institutes and design suitable training programmes and relate them to manpower requirements. If this is not done, these enterprises will have to continue to depend on facilities abroad. Besides straining the foreign exchange resources, the difficulty in obtaining the necessary foreign exchange and having to follow rigorous procedures to obtain Government's approval, makes it difficult for management to implement an efficient training programme. We feel it will be more appropriate to have the trainers trained abroad and then, with the help of a few foreign technicians, set up the required training capacity within the country. For the first time, a financial provision of Rs. 1 crore is being envisaged under the Fourth Plan for training for management, administration and planning. The draft outline of the Plan contemplates training programmes in management to be jointly sponsored by the Planning Commission and the Bureau of Public Enterprises. It should be quite possible to work out with the help of the management institutes and specialist agencies concerned the possibility of running training programmes tailored specially to the requirements of the public undertakings. A detailed assessment of manpower requirements for the more scarce categories of personnel will help in a rational application of these funds. We suggest that this work and the funds being provided for the purpose should be transferred to the Bureau of Public Enterprises so that the allocation may be utilized to train the categories of

personnel which are more acutely required by the public undertakings.

Manpower Planning and Overstaffing

8.64 Overstaffing is believed to be a general malaise in the public undertakings. Both, the Estimates Committee and the Committee on Public Undertakings have commented on this feature. The Estimates Committee in their 52nd Report had made particular reference to the extent of overstaffing in the three steel plants of Hindustan Steel. It has also quoted the statement of the then Minister of Steel, Mines and Heavy Engineering made in the Lok Sabha on 20th September, 1963 to the effect that "excessive manpower besets many of our public sector plants". In this statement, the Minister had made special mention of the steel and fertilizer plants in the public sector.

8.65 While most public undertakings have indicated to us that there is an element of overstaffing in their units, many of them have argued that the extent of overstaffing is often exaggerated. Some have pointed out that it is not proper to compare the existing staff strength with those given in the Detailed Project Reports since the original DPRs, in many cases, had not included all the various departments that are now functioning in the projects. It has also been asserted that the labour norms adopted by the consultants have not been realistic in many instances.

8.66 The analysis of data furnished by the enterprises and the reports of the Parliamentary Committees show that although overstaffing does exist in many projects, its extent and nature is yet to be fully analysed and assessed. For some time, Government as well as the public enterprises have been aware of the problem of overstaffing, but sufficient steps have not been taken so far to locate the areas of overstaffing, with a view to reducing the staff in those areas. Opportunities coming in the wake of expansion have not been fully utilised to absorb surplus staff. To some extent this is due to the fact that new projects were generally set up as independent companies and not under the old running concerns. Only a few undertakings (Hindustan Steel, Fertilizer Corporation of India, etc) have undertaken limited work study programmes to assess the extent and areas of overstaffing. Most undertakings do not have qualified industrial engineers to undertake this work on a continuous basis. It is needless to emphasise that the cost of over-manning are heavy and recurrent, and are to a large extent responsible for the higher

operating costs of our public enterprises. We feel that the additional cost incurred on an industrial engineering organization would be fully justified by the economies that it would lead to.

8.67 The main reasons for overstaffing can be outlined as follows:

- (i) lack of manpower planning on a scientific basis in the initial stages;
- (ii) lack of restraint in the initial stages to limit recruitment to manifest needs and a tendency to go up in routine to the level of sanctioned strength;
- (iii) undertaking construction departmentally and attempting to follow too fast a time-schedule of construction;
- (iv) emulating governmental patterns in staffing offices and recruiting clerical staff and class IV servants on that scale; and
- (v) failure to lay down appropriate working standards and following traditional and uneconomical practices like the employment of helpers.

In addition to the reasons listed above, some public undertakings have referred to the tendency on the part of the managers and officers to play safe and the tendency on the part of all concerned to distribute favours. Some public undertakings have also pointed out that political and administrative pressures have created difficulties in the way of their shedding surplus staff.

8.68 Overstaffing is a problem of which the reasons as well as solutions are commonly known. Difficulties appear at the stage of implementation where a variety of considerations begin to restrict management's discretion. The real need is to take the circumstances of each case into account and to work out practical solutions consistent with the social obligations of the public undertakings. We are of the view that the adoption of proper standards and other control techniques is essential from the very beginning. After the situation goes out of hand, it becomes extremely difficult for management to retrench staff.

8.69 As for undertakings in which overstaffing has become chronic, it is necessary to have work studies undertaken by industrial engineers. We suggest that adequate organizations should be

set up for this purpose, particularly in the larger multi-unit projects. Once the extent and areas of overstaffing have been identified, the subsequent absorption of surpluses during the expansion stage and the setting up of new projects will be facilitated. Some undertakings have decided that as immediate corrective steps, the normal vacancies occurring in the overstaffed departments should not be filled up, employees should be encouraged to apply for jobs outside and offered lump sum gratuities, *ex gratia* grants etc. as incentives to leave the enterprise, offices of the undertaking should be recognized on an officer-oriented pattern to reduce clerical staff, and skilled workmen persuaded with the help of incentives, if necessary, to do without the assistance of helpers. These are steps which can be applied by other undertakings facing the problem of overstaffing.

8.70 The problem of surplus construction staff is common to most industrial undertakings in the public sector. The newer public undertakings have been reducing the quantum of departmental construction to avoid the recruitment of a large number of construction and engineering personnel. An important consideration to be kept in mind is that specialist staff employed for the work of designing and for the erection of the plant, should be retained by the enterprise with a view to utilizing their experience later. As we have indicated earlier, the multi-unit corporations will be able to do this without the process becoming uneconomical. Given a fairly firm programme of expansion, they will be able to retain a compact designing and construction wing and ensure their rational deployment. The Bureau of Public Enterprises can also maintain information regarding the expected dates of completion of various projects so that new projects could be advised of the possibilities of construction engineering personnel becoming surplus elsewhere. This will facilitate mobility and enable the absorption of potential surpluses. We feel that greater use of the construction corporations in the public sector and of non-departmental agencies, wherever feasible, will also tend to reduce the problem of surplus construction staff.

Flight of Technical Personnel

8.71 It is generally believed that most public undertakings suffer from flight of personnel, i.e. the large-scale migration of their managerial and technical officers to other enterprises, especially the private concerns. According to the 52nd Report (March, 1964)

of the Estimates Committee, as many as 4,857 technical/managerial personnel left the public undertakings during the three years preceding 1963-64 to join other public or private undertakings. The Committee has referred to the 'study' made by an officer of the Indian Institute of Public Administration. According to the conclusions of this study report, the problem of flight was not a general phenomenon in the public sector as a whole although there were several undertakings where unplanned movements had taken place. The main causes for this movement were identified in the study report as follows:—

- (i) the general imbalance between demand and supply in the case of qualified engineers particularly those having some years' operational experience or certain kinds of specialised experience;
- (ii) lack of security in service, particularly amongst construction engineers;
- (iii) differentials in the pay scales offered by undertakings within the public sector itself;
- (iv) inadequate opportunities for advancement and the greater weight that the public sector, as compared to the private sector, attaches to seniority as a qualification for promotion;
- (v) lack of personnel development programmes and the recruitment of a large number of engineers of the same age group in new enterprises, clogging the avenues of promotion; and
- (vi) reasons of morale arising out of dissatisfaction with certain features of organization and procedures and the public image of these enterprises.

8.52 The replies that we have received from the public undertakings reveal that the problem of staff turn over is not so acute in the case of non-technical personnel. Figures relating to migration of technical personnel in the 33 industrial and manufacturing concerns of the Government of India, which have furnished information in this respect and the position indicated by these and other public undertakings show that the problem has not assumed serious dimensions in most undertakings. A certain amount of turn over is

*A Study Report on the flight of technical personnel in public undertakings by Dr H K Paranjape, IIPA—1963.

to be expected in any commercial organization. In the 33 public undertakings referred to above, about 2800 technical personnel left the public undertakings during the 3-year period 1963—66 (the figures will in fact be slightly higher because a few undertakings have furnished information for only 2 years). The figures also include technical personnel below engineering level.

8.73. The turnover resulting from shedding of surplus construction staff is, in fact, to be welcomed. The management of the Heavy Engineering Corporation have encouraged some of their engineers to leave as they were surplus to requirements. Hindustan Steel (HSL) conducted a study of this problem covering the calendar years 1963 and 1964. During this period 317 engineers left HSL, out of whom over 224 stated that they were leaving for personal reasons. It is evident that these personal grounds must have included opportunities for employment on higher grades in the private sector. The analysis made by Hindustan Steel shows that the percentage of personnel who left HSL over the two-year period to the total number employed in the corresponding grades was only 6 per cent, which does not seem to be abnormal.

8.74 From the information that we have received from undertakings, we find that the problem is being felt acutely in the Heavy Electricals (Bhopal) and to a lesser extent in the Neyveli Lignite Corporation, the Indian Oil Corporation, the Hindustan Machine Tools and a few others. The problem of the Heavy Electricals deserves very early attention. The number of engineers who left the Heavy Electricals in the three years under review was 14, 27 and 33 which shows a steady increase; in all, 531 technical personnel left Heavy Electricals, Bhopal during these 3 years, in most cases for better prospects. HEL have indicated that in some cases, engineers trained abroad at considerable expense by them were offered so much better terms by the private concerns that they left the HEL despite the liability to pay Rs. 20,000 or more as penalty for infringement of the bonds that they had signed. The situation needs to be studied in depth to determine the remedial steps that are required. We suggest that the bond that trainees have to execute should be for a minimum period of 5 years and, in the event of infringement, should be rigidly enforced. We suggest that the training programme should, as far as feasible, be linked to a definite ladder of promotion so that a person has an added incentive to stay on after the completion of training.

8.75 As for the other undertakings like Neyveli Lignite, the IOC and HMT which are experiencing similar difficulties, the main cause seems to be the inability of the undertaking to offer sufficient avenues of promotion, especially after an engineer has been trained or has gained a few years of initial experience. This is due to the fact that trained engineers and those having a few years of operational experience are scarce in the industry as a whole. The fact that this situation is likely to continue for some time should not be lost sight of while planning the recruitment and training of that category of personnel. We suggest that some provision should be made to enable at least a certain percentage of engineer entrants to receive comparatively early promotions to the next higher grade as soon as they have completed their period of training. This would help the undertaking to retain the services of at least the best few of the entrants.

8.76 We would like to point out that many of the factors and causes that today result in the flight of personnel will be eliminated or effectively controlled with the setting up of multi-unit corporations. These corporations will be able to offer wider prospects and greater mobility to their employees. Furthermore, the uniform pay structures and terms and conditions of service in different projects within a particular corporation will considerably reduce the problem of unplanned migration of personnel. In particular, the turnover which takes place in the case of designing and construction engineers will be checked as the corporations will be in a position to afford a standing nucleus organization of such personnel and to ensure their successive utilization on new projects.

Personnel Departments

8.77 Generally, the personnel departments in public undertakings have been placed under officers on deputation from the Central or the State Governments. When the officer on deputation is from the State Government, he is from the State Government in which the public undertaking is located since it is argued that an officer from the State Government is in a better position to help the undertaking in securing suitable personnel, particularly at the lower levels, from resources locally available and in securing the co-operation of the State Government departments. Consequently, personnel managers in the public undertakings are often not professionally qualified. Some undertakings like Air India, Bharat Electronics, Fertilizer Corporation, HSL, Hindustan Aeronautics, FACT, ITI, Rare Earths, ONGC, Neyveli Lignite Corporation and a

Few others have had their personnel officers trained in training institutes. But a majority of undertakings have not even taken this step. Another common feature of the personnel departments of the undertakings is the lack of expertise in fields like industrial engineering, labour relations, manpower planning, etc.

2.78 The result of these factors has been that the personnel departments as they exist today resemble, more or less, the establishment sections of Government departments, their activity often decaying into a lifeless routine. The status accorded to the department also varies from undertaking to undertaking. Only in a few cases does it deal directly with the chief executive; since in most cases it is attached to a 'line' functionary below the chief executive. For effective personnel management, we recommend that personnel administration should be recognised as a staff function of the highest importance and the department dealing with it should be equipped with the necessary expertise in industrial engineering, labour relations, manpower planning, etc, and attached directly to the chief executive of the undertaking.

3. Industrial Relations

2.79 The labour policy and programmes of the Government make no distinction between the enterprises in the public and private sectors. But public enterprises can legitimately be expected to act as model employers and set an example of enlightened management and employer-employee relationships. We have considered what these special responsibilities attaching to the public enterprises should be, and whether there are any special deficiencies and problems that exist today in this area in the public sector. We have taken note of the fact that Government, *vide* their Resolution of 24th December, 1966, have set up a National Commission on Labour. The terms of reference of the Commission are very comprehensive and, *inter alia*, cover the responsibility to undertake a—

- (i) review of the existing legislative and other provisions intended to protect the interests of labour;
- (ii) examination of workers' earnings and provisions relating to wages, all aspects of labour welfare and the existing arrangements for administration of labour welfare and for social security;

- (iii) study of relations between employers and workers, and the role of trade unions and employers' organizations; and
- (iv) study of labour laws and voluntary arrangements like code of discipline, joint management councils, etc and the machinery in the Centre and in the States for their enforcement.

In view of this comprehensive study of the subject that the National Commission will undertake we have confined our examination to the more important deficiencies that exist today in public enterprise and the major problems that all undertakings in the public sector are facing.

Model Employers

8.80 The policy that the Government has formulated for the application of labour laws, as set out in the Five Year Plans, envisages that public enterprises will conduct themselves as progressive employers serving as a model for the private sector. The Guide on 'Labour Laws and Practices' brought out by the Ministry of Labour & Employment—a very useful document—attempts to amplify the special obligations cast on the managements in the public sector. Besides indicating that managements have to discharge their responsibilities with exceptional care, the Guide suggests that the managements should adopt a really enlightened policy in labour matters, treating workers as real partners, ensuring that their just grievances are promptly redressed and taking timely remedial measures after ascertaining the causes of labour unrest. We recommend that the special responsibilities of the management in the public sector with regard to labour matters should be clearly spelt out by the Government. It may perhaps be possible for the National Commission on Labour to define these special responsibilities. The Government can then lay down principles that will serve as guidelines to the managements as well as the officers of the Government Labour Departments.

8.81 In our view, it is most important for the management to have and to show a lively interest in the welfare of the employees. The promotion and training policies of public undertakings should be so devised as to convince the workers of the interest that management has in developing their skill and qualifications and in improving their prospects and standard of living. We would like to point out, however, that the 'model employer' concept should not

be interpreted, particularly by the officers of the Government Labour Department, to mean that management is bound to accept any demand that any organization of workers may put forth. Nor should the 'model employer' approach be construed to mean that supervising officers would be expected to condone or be lenient to laziness, indifferent work and acts of indiscipline. Indeed, such an attitude would be positively harmful to the ultimate interest of the undertakings as well as the workers themselves.

Statutory Obligations—Existing Deficiencies

8.82 The management must be efficient in detecting causes of disaffection and prompt in initiating speedy measures to remove the causes of disaffection or moving the conciliation machinery to deal with disputes. One of the basic factors on which proper labour management depends is the prompt and effective manner in which the employers discharge their statutory obligations. But in the past there has unfortunately been considerable delay in the fulfilment of such obligations in the public sector. The Estimates Committee in a report brought out in March 1964 (52nd Report), listed 17 public undertakings, established for several years, in respect of which standing orders had not been framed or certified as required by the provisions of the Industrial Employment (Standing Orders) Act, 1946. Thus, in certain cases, even the standards laid down in the labour laws are not being complied with. The 52nd Report also listed 28 undertakings which had not yet laid down proper procedures for the redress of their employees' grievances. Even now, there are many undertakings, e.g., Central Warehousing Corporation, Hindustan Salts, IAC, National Buildings Construction Corporation, National Mineral Development Corporation, Indian Drugs & Pharmaceuticals and Cement Corporation of India, which are yet to establish a regular procedure for the redress of grievances. It is regrettable that these deficiencies continue despite the fact that Government have circulated model standing orders and grievance procedure for the guidance of the managements.

8.83 We are of the view that these deficiencies arise mainly from lack of adequate knowledge and understanding of the provisions of the labour laws and the non-statutory obligations attaching to the managements as a result of Government's labour policy and tripartite decisions like the Code of Discipline in Industry. In their report* on Personnel Policies of Public Undertakings, the Estimates

*Para. 237 of the 52nd Report of the Estimates Committee—March, 1964.

Committee has observed that "the absence of an efficient and effective Personnel Department in the undertakings has to some extent been responsible...for the lack of proper attention to even elementary things like the adoption of Standing Orders, drawing up of a Grievance Procedure, etc."

Level of Labour Management Function

8.84 As mentioned in para. 8.77 of this chapter, the Personnel Departments in most enterprises have been placed under officers on deputation from the Central or the State Governments. These officers are not always persons who are professionally qualified or adequately experienced in labour matters. We recognize that it might not be possible to lay down rigid qualifications, but managements of the public undertakings should be able to take steps to have their Personnel Managers trained in industrial relations and labour management, and to strengthen their Personnel Departments in this respect. We feel that an officer who is professionally qualified or equipped with sufficient experience in labour management should be available at a senior position in the personnel department, preferably second to the Personnel Manager, unless the latter himself is an expert on the subject. We suggest that the labour officer should have direct approach to the chief executive in case he felt that his advice was being unjustifiably disregarded by any line authority.

8.85 From the information that we have received from many public undertakings, it also appears that there is no clear line of demarcation, in many cases, within the personnel department between the functions of industrial relations and labour welfare on the one hand, and the other aspects of personnel management like recruitment, promotions, and conduct and discipline on the other. In our view, it is difficult for the same set of officers to discharge both these kinds of duties. If labour officers are to be effective in dealing with the workers, it is necessary that they do not have to share responsibility for decisions that might become the subject-matter of disputes. We feel that officers entrusted with labour relations should not shoulder any direct responsibility in matters like recruitment, promotions and disciplinary action against workers. Moreover, it would be a distinct advantage if the chief executive is able to obtain impartial and objective advice on labour matters from a senior officer who does not shoulder responsibility for any subject other than those of industrial relations and labour welfare. We suggest that, as a rule, a separate section should be established exclusively for labour relations within the personnel departments of public undertakings. In

the larger undertakings, a separate labour department should be organized solely for labour relations. In undertakings where a separate department is established, it would be necessary to secure the closest co-ordination between the personnel department and the department for labour relations. The heads of these two departments must, therefore, work in co-operation with each other and take important decisions after joint consultation. At the director level, one full-time director should be entrusted with these two departments to ensure the harmonious working of both.

Labour Officers of the Central Pool

8.86 The Ministry of Labour & Employment maintain a Central Pool of labour officers. Officers from this pool have been deputed to and, in some cases, permanently absorbed in the service of the undertakings. The meeting of the heads of public undertakings held in July 1963 came to the conclusion that personnel departments in the undertakings should be strengthened. The meeting also suggested that while appointing labour officers preference might be given to officers of the Central Pool, who possessed the appropriate labour background and experience. We suggest that the Ministry of Labour & Employment should, in co-operation with the Ministries concerned and the public undertakings, survey the anticipated requirements of undertakings for labour officers, with a view to providing experienced men in larger numbers to the public undertakings. We feel that this will help facilitate permanent absorption of experienced and qualified labour officers of the Central Pool in the service of the public undertakings. In fact, the Bureau of Public Enterprises can maintain, in the same manner as for other categories of personnel, a list of suitable labour officers, to facilitate both their permanent absorption in the service of the undertaking as well as inter-undertaking transfers of these officers in suitable cases. We suggest that once a pool officer is deputed to an undertaking, the Ministry of Labour & Employment should not call for any direct reports from that officer, as is the practice in some cases at present, but should treat him as an employee of the undertaking.

Labour-Management Relations

8.87 We have observed that the relations between management and the workers are not cordial in many public undertakings. Recently, a number of case studies have been undertaken by teams set

up by the Ministry of Labour & Employment to study industrial relations and the implementation of labour laws, tripartite decisions etc in selected public undertakings, like Rourkela and Durgapur Steel Plants of the HSL, Nangal and Sindri units of the Fertilizer Corporation, Hindustan Cables, ITI and Praga Tools etc. Information has also been collected from these and other undertakings about labour troubles that have resulted in strike and cessation of work during the preceding three years. An analysis of this information and the case studies shows that in most cases, the trouble could be traced to inter-union or intra-union rivalries and the problems faced by the management in determining which union or group within a union actually represented the majority point of view. The analysis also reveals that communication between workers and management was, by and large, not satisfactory and that the machinery for joint consultation and joint councils of management had either not been organized adequately or were not functioning effectively. The grounds on which the workers' unions launched agitations varied from non-acceptance of awards, disputes regarding bonus, project allowance and other allowances, disciplinary action against workers, alleged assignment of extra work, and retrenchment of staff, to individual grievances.

8.88 In several cases, disputes between management and labour have erupted into unfortunate incidents involving acts of violence and disturbance of law and order at the site of the factory. In particular, the Sindri Fertilizer Plant, Durgapur Steel Plant, and undertakings at Ranchi and the Heavy Electricals Plant at Bhopal have been scenes of such occurrences. The Estimates Committee cited* the Report of the Consultants regarding the Heavy Electricals Plant at Bhopal in which the consultants had observed that—"There is ample evidence that a deplorable state of indiscipline exists among the workers." This Report also mentioned* about "the management's representatives on the shop floor being so terrorised by threats of violence to themselves and their families that they are afraid to take disciplinary action or report men flagrantly ignoring instructions and even sleeping during working hours."

8.89 The problem has recently assumed alarming proportions with labour resorting to potentially militant measures in their attempt to secure acceptance of their demands by the managements, both in the public and the private sectors. These incidents which

*Para 248 of the 35th Report of the Estimates Committee of the Third Lok Sabha—April, 1963.

have come to be commonly described as 'gheraos' have introduced a new and dangerous element in the field of labour-management relations. High level discussions have taken place on this point both in the Government and at tripartite conferences of the representatives of Government, the employers and the trade unions. We believe that a fair degree of unanimity has been reached on the conclusion that 'gherao' is not a rightful or a legitimate weapon in the armoury of the trade union. We are convinced that agreements between labour and management should be arrived at through collective bargaining and voluntary agreement, and not through collective coercion and exaction of concessions by the use of terror, veiled threats of force and violence. If unchecked, these tendencies are bound to damage the normal machinery of labour-management consultations and of conciliation. We would like to point out that the public enterprises represent social property and the managements act as agents of the State charged with the management of this social property in the collective interest. In such circumstances, *gheraos* in the public sector are particularly incongruous and injurious. We would recommend that, while taking the necessary measures to ensure that the just grievances of labour are satisfactorily redressed and the awards of labour tribunals, wage boards etc expeditiously implemented by the management, the Central and the State Governments should take immediate and effective steps to check the spread of 'gheraos' in all the industrial units, whether in the public or the private sector.

8.90 In essence, a strike or agitation represents a breakdown of the normal processes of negotiations between labour and management and a failure of conciliation. This may be the result of inept handling by the management, unjustified demands and irresponsible action on the part of the workers' union or the ineffectiveness of the enforcement machinery of the Government concerned. In the following paragraphs, we shall attempt to deal with some of the more important deficiencies and problems that the managements of public undertakings are facing in regard to labour matters.

Recognition of Trade Unions

8.91 The problem of recognition of trade unions is a very complicated one. It has often been the main cause of friction between labour and management. The Sindri Fertilizer unit, Durgapur Steel Plant, the air corporations, Heavy Electricals (Bhopal) etc have experienced intermittent labour troubles on account of inter-union and intra-union rivalries. There is no Central Act which

provides for compulsory recognition of unions. The Indian Trade Unions Act, 1926, contains provisions for registration under certain conditions but it does not cast any obligation on the unions to seek registration under the Act, nor does it impose any obligations on the management. However, the Bombay, Rajasthan and Madhya Pradesh Industrial Relations Acts provide for statutory recognition of unions under specified conditions, and confer certain rights on the unions that are granted recognition. In other areas, managements are expected to extend recognition to unions in accordance with the procedure and criteria laid down in a voluntary code, *viz.*, the Code of Discipline. The Code, however, does not define the rights of a recognized union as against a non-recognized union. Moreover, even an unrecognized union can raise a dispute, have conciliation proceedings started or take the dispute to adjudication.

8.92 We feel that the present position leads to an undue proliferation of unions and an unhealthy rivalry between them. Not only does this lead to the escalation of demands by competing unions but it also weakens the trade unions on the whole and makes the process of labour-management negotiations extremely complicated. A certain refinement in the trade unions and labour laws does seem to be called for to overcome these difficulties. We recognise that it may not be a practicable proposition to provide for compulsory recognition unless the employers and the labour organizations are agreeable to it. It is important, however to devise a suitable machinery which will enable management to decide between the conflicting claims put forth by rival unions. We suggest that the procedures for the verification of union memberships by the Government Labour Departments and the Registrars of Trade Unions should be streamlined and made more effective to enable management to have an accurate idea of the representative strengths of different unions. A properly recognised and representative union is a definite asset to any enterprise, giving a fillip to voluntary negotiations between the parties and reducing the number of disputes and cases requiring settlement by adjudication.

8.93 Proliferation of unions also results in union finances becoming weak and meagre. It is sometimes alleged that some unions call for strikes or launch some kind of agitation simply to raise union funds. These allegations may or may not be true. But in the situation that prevails today in some undertakings, a less responsible union which frequently adopts an agitational approach is likely to be much better off financially than a union which may

be pursuing the more responsible path of achieving results through hard work and negotiations. We feel that the difficulty that trade union officials experience in collecting union dues should be viewed sympathetically by the managements. We hope that the National Commission on Labour may examine the relative merits of systems like the 'check-off system' (under which union dues are collected by making deductions from the wages) and others that have been adopted in other countries and recommend practical steps which suit the conditions which prevail in our country.

'Appropriate Government' for settlement of Industrial Disputes

8.94 According to the provisions of the Industrial Disputes Act, 1947, matters relating to the settlement of industrial disputes of most public undertakings, companies as well as statutory corporations, fall within the State sphere. A few undertakings like the Air India, IAC, the undertakings in the mining sector and the oil-fields are exceptions in respect of which the Central Government is the appropriate Government for the purposes of the Act. The departmental undertakings of the Central Government like railways, posts and telegraphs etc and the banks fall within the Central sphere. It is reported that the Ministry of Labour and Employment are re-examining the existing division of jurisdiction between the Central and the State Governments to overcome the difficulties that are being experienced in starting proceedings of conciliation and arbitration of disputes in projects that have units in more than one State. There is no unanimity in the views expressed by the managements of public enterprises on the desirability of bringing the settlement of industrial disputes in Central Government undertakings under uniform Central laws. For instance, Hindustan Shipyard and Heavy Electricals (Bhopal) have suggested that it would be better if industrial relations were handled by the Centre for the sake of uniformity. The management of Hindustan Steel have expressed the view that this will, perhaps, be a mistake as the managements, in dealing with labour troubles, especially those that are likely to lead to tension and breach of the peace, have to function in close co-operation with the authorities of the State Governments including the authorities at the district level.

8.95 The recent amendments made in the case of some of the financial institutions and the air corporations give the impression that there is a trend in favour of making the Central Government the

appropriate Government in matters relating to the settlement of industrial disputes. We feel that the question needs to be examined particularly in respect of the multi-unit undertakings like Hindustan Steel, Hindustan Machine Tools, Hindustan Aeronautics, Fertilizer Corporation of India etc which have units located in more than one State. In our view, there are advantages in applying uniform laws on all the establishments of the same public enterprise. The need for uniformity will be greater with the creation of the multi-unit corporations that we have suggested for the public enterprises in the industrial sector. Uniform laws for settling industrial disputes and governing the recognition of trade unions will facilitate the building up of an affiliative union organization for workers in the same industry. This will also help in promoting the growth of strong and stable unions and avoiding multiplicity of management-unions' negotiations and agreements for projects falling in different States. We recognize that the co-operation of the State Government Departments, particularly the district authorities, is essential for good industrial relations. But we feel that with good liaison and timely and periodical consultations with the authorities of the State Government, this should be readily forthcoming. For certain industries like the oil-fields and mines the Central Government is already the appropriate Government for matters relating to the settlement of industrial disputes. For considerations set out in the above paragraphs, we feel that it would be advantageous to bring certain categories of heavy industries like the steel plants, heavy engineering and machine tools plants, heavy electricals, big fertilizers and chemicals plants, aircraft manufacturing units, shipyards, etc, within the Central sphere for matters relating to the settlement of industrial disputes. It is in these sectors that multi-unit corporations are functioning or integral corporations may be set up, as proposed by us, with subsidiary units located in more than one State.

Communication in Industry and Joint Consultation

8.96 Joint consultation between management and workers provides the most effective means of communication within the enterprise. Quite often disputes occur in the undertakings because of mis-information or a lack of understanding on the part of workers about the changes, initiated by the managements. The Industrial Disputes Act, 1947, prescribes the setting up of Works Committees comprising an equal number of representatives of management and workers, if so required by the appropriate Government. The functions envisaged for the Works Committee are to promote measures

for securing and preserving amity and good relations between the employer and the workers, and towards that end to comment upon matters of common interest or concern and endeavour to compose differences of opinion with regard to such matters. From the information that we have received from the public enterprises it appears that the Works Committees are not yet functioning effectively. The reasons that the managements have given for their ineffectiveness are the lack of positive response from workers, absence of strong unions and inter-union rivalries.

8.97 The importance of communication should also be viewed in relation to the size of the enterprise. A common feature of the industrial public enterprises is their large size and complexity of organization. This, in turn, increases the problem of securing good human relations among the employees. Inadequate communication in these enterprises is, therefore, bound to result in a good deal of misinformation among the employees and this inevitably detracts from their willingness to co-operate with the management.

8.98 We feel that the attainment of higher morale, discipline and improved incentives largely depends on facilitating and developing communication within the enterprises. In our view, communication does not merely consist of making available more and better factual information about the industry but includes certain positive aspects which are more important and perhaps more difficult to achieve. Foremost is the need to instil in the workers a sense of partnership, a sense of pride in the public enterprise and a sense of responsibility for its efficiency and well-being. There is great need for infusing among all the employees a sense of common purpose and an awareness of the fact that they are working in an enterprise which is engaged in serving the collective interest of the community. It is also necessary to make the workers of public undertakings aware of the major problems that the country and industry are facing, problems like the shortage of basic goods and materials and dependence on imported goods, shortage of capital resources, the overriding necessity for improving productivity and the crucial need for ensuring the maximum possible utilization of the huge amount of capital invested in the enterprises.

8.99 We feel that the achievement of these positive aims is not simply a matter of circulating information but of promoting greater understanding through an effective programme of educa-

tion and training. The introduction of the Workers' Education Scheme, now in operation for over eight years, has been a step in the right direction. We, however, feel that managements as well as trade unions in the public sector have to shoulder a greater share of the responsibility for workers' education. The fact that a semi-autonomous board has been set up for Workers' Education does not dilute this responsibility. We, therefore, reiterate our suggestion that managements in consultation with the labour organizations, should devise an integrated plan of education, training, and promotions to demonstrate to the workers their interest in improving their prospects, skills and qualifications, and standard of living.

8.100 The consultative bodies set up so far in the public undertakings have yet to become effective channels of communication between the management and the workers. If the joint consultative machinery is to be successful, it is important that managements do not view it as a mere gesture or a grudging concession to the trade unions. In our view, the main reason for the failure of Works Committees is the fact that they are convened in routine, without adequate preparation of agenda papers. The result is that members do not find the discussions very worthwhile. We suggest that the managements should take Works Committee meetings as opportunities to inform the workers of their plans and difficulties and to explain the reasons for the changes being initiated. We also suggest that due publicity should be given to the proceedings of the Works Committees so that the workers' representatives may feel more interested and responsible for what emerges from the discussions.

Expenditure on Workers' Welfare

8.101 As far as townships and ancillary facilities are concerned, the public undertakings have provided them on a liberal scale. Medical and educational facilities, shopping and community centres, playgrounds etc are provided by practically every undertaking. The actual and anticipated capital outlay of the townships of public undertakings including expenditure on ancillary facilities is of the order of Rs. 300 crores and constitutes well over a tenth of the total investment on the public sector projects of the Central Government. The Committee on Public Undertakings (8th Report, May 1965) has commented upon the different standards followed in the scales of accommodation and the scales at which services and

other facilities were being provided. We suggest that, as recommended* by the Committee on Public Undertakings, action should be taken to lay down 'suitable guiding principles, norms and standards without any delay....to ensure that public undertakings follow a balanced approach in incurring expenditure on productive and non-productive activities'.

8.102 In the 8th Report of the Committee on Public Undertakings, mention was made of the fact that the standards of concealed subsidy on housing laid down by the Ministry of Finance in their circular of 23rd March, 1960, had been exceeded by many public undertakings. From the data that we have received from the public undertakings it appears that there is no clear-cut method of working out the cost of the subsidy on housing, transport, leave concessions, school and medical facilities etc provided to the workers. A majority of the Central Government undertakings have indicated that information in this respect has not been fully worked out and is not readily available. Even the undertakings which have supplied the necessary information have followed different criteria in working out the figures. An accurate comparative analysis is, therefore, not possible. But the figures do give an indication that there are considerable variations in this respect. The cost of subsidy per worker per month relating to some of the projects is given below:

Hindustan Steel—

| | |
|--|--|
| (a) Bhilai Steel Plant | Rs. 41 |
| (b) Rourkela Steel Plant | Rs. 60 |
| (c) Durgapur Steel Plant | Rs. 62 |
| Hindustan Aeronautics Ltd. | Rs. 24 |
| Hindustan Cables | Rs. 43 (including PF and <i>ex-gratia</i> payment) |
| Mining and Allied Machinery Corporation | Rs. 39 |
| National Mineral Development Corporation (Kiriburu Project). | Rs. 41.50 |
| Indian Telephone Industries | Rs. 26 |
| National Newsprint and Paper Mills | Rs. 23 |

*Para. 10 of the 8th Report of the Committee on Public Undertakings—May 1965

| | |
|---|--------|
| Fertilisers and Chemicals Travancore, Ltd | Rs. 61 |
| Hindustan Antibiotics | Rs. 35 |
| Hindustan Insecticides— | |
| (a) Delhi unit | Rs. 70 |
| (b) Alwaye unit | Rs. 34 |
| Indian Rare Earths | Rs. 21 |
| National Small Industries Corporation | Rs. 80 |

8.103 We recognize that it is not possible to lay down any rigid financial limits in this regard. Expenditure is bound to vary from undertaking to undertaking depending upon its location and the availability of housing and medical and educational facilities in the neighbourhood of the project. However, we suggest that Government should have the question examined by a committee consisting of the representatives of a few selected public undertakings and the Ministries concerned. The Committee can work out guide-lines and norms for the purpose of ensuring a certain degree of uniformity among different public undertakings. We feel that this is a necessary step. Glaring disparities in the scales of amenities afforded to the workers in different projects are bound to give rise to a cycle of escalating demands in the public sector resulting in avoidable additional expenditure. We recommend that the necessary information should be worked out and compiled by the projects on a uniform pattern and collected at a central point, *viz.*, the Bureau of Public Enterprises. The Bureau can then make it available to all the public sector projects. This in itself will lead to greater incentive for uniformity, and will place managements in a better position to deal fairly and effectively with the demands put forward by the workers' organizations.

Workers' Participation in Management

8.104 The association of workers in the management of enterprises can be an important means for maximising co-operation between the workers and the managements. Perhaps the most significant success achieved in this respect has been in Yugoslavia where the workers' council elects the chief executive and holds him accountable for the working of the enterprise. But there too the chief executive and the managerial staff are responsible for the administrative control of the enterprise, and the workers do not take upon themselves the job of day-to-day administration. It is necessary to realise these limiting factors and to examine the

extent to which workers' association in management can be secured in the conditions that exist in our country. We have first to prepare the ground by educating and reorienting the outlook of the workpeople and managers.

8.105 A suggestion often made in the context of association of labour in management is to include a labour representative on the Board of Directors of the undertaking. We feel that this is not a desirable step since it is difficult for the representative of labour to discharge at the same time the different responsibilities attaching to a board member and a labour representative. In our view, such an arrangement detracts from the constructiveness of discussions in the Board without bringing about any appreciable improvement in the transaction of business relating to industrial relations. What the workers actually want to be associated with are matters which affect them more intimately, matters which are of immediate and vital interest to them like security of service, information about the enterprise, future prospects, wages etc and not high policy decisions. We have already stated that the boards of public undertakings can benefit if a person having experience of trade union work is appointed to the board, not in the capacity of a labour representative but as an expert on labour matters.

8.106 As a positive measure for securing the participation of workers in management, Government have introduced the scheme of Joint Management Councils. The Scheme, which is purely voluntary, envisages the setting up of joint councils of management, comprising representatives of workers and the management. These councils will have direct administrative responsibility for such matters as workers' welfare, safety measures and training, and the right of consultation in matters like the administration of Standing Orders and innovations in the methods of production. Although many public undertakings have established advisory committees that have labour representatives to look after the management of such activities as housing schemes, co-operative stores, canteens, creches, schools, etc, the scheme of Joint Management Councils has been tried only in a few undertakings, e.g., in Hindustan Insecticides, Hindustan Machine Tools, National Coal Development Corporation, Fertilisers and Chemicals Travancore Ltd. etc. The managements of these undertakings and of Hindustan Steel (where the scheme is yet to be tried) have stated that joint councils of management have not been successful because of inter-union rivalries, lack of workers'

cooperation and the fact that they were sometimes used for the purposes of collective bargaining. In almost all these undertakings the joint councils that were set up became moribund soon after their formation.

8.107 In 1963, the working of the Scheme was assessed by the Ministry of Labour and Employment and a comprehensive report was circulated to the public undertakings suggesting measures for strengthening the joint councils. The Ministry of Labour and Employment have also set up a special unit to assist managements in the public sector in setting up joint management councils and working out the relevant details. We find, however, that the Scheme has not made much headway for various reasons. We feel that public enterprises should take the lead in setting up joint consultative machinery. If such councils function with the spirit and perspective that should characterize such institutions, and if they receive the requisite support from the top management of the undertakings, the public sector will really be able to set an example in harmony and co-operation.

CHAPTER IX

FINANCIAL AND MATERIALS MANAGEMENT

1. Financial Management

9.1 Most public enterprises are yet to introduce modern techniques of financial management in their operations. By and large, the finance and accounts organizations, as at present set up, still have legacies of the systems and procedures adopted in the Government departments, and cannot be said to be attuned to the larger requirements of industrial and commercial enterprises. The lack of efficient accounting organization and procedures has been frequently pointed out by the Parliamentary Committees and the auditors. A number of enterprises in which the procedures and organization of accounting leave much to be desired have been mentioned in the Audit Reports (Commercial) brought out by the Directorate of Commercial Audit each year. We find that Government have been issuing instructions repeatedly, and over a number of years, and yet the necessary improvements have not been brought about.

9.2 We are aware of the fact that parts of the subject-matter of this chapter fall within the purview of two other Study Teams set up by the Administrative Reforms Commission to examine different aspects of financial administration. But since this relates to a management function of overriding importance, we have considered it necessary to deal with the more important aspects of financial management and cost control as they obtain in the various public enterprises today and the steps that need to be taken to overcome the existing deficiencies.

Budgeting

9.3 In the main, the budgetary forms and procedures adopted in the public sector follow the traditional pattern. With a few exceptions, the system of classification of expenditure adopted in the budgets does not link expenditure to activities and end results, though this is a necessary requirement for performance budgeting. The budgets prepared by many of the undertakings also reveal that they are not prepared in sufficient detail, and that beyond

... serving as a base for obtaining funds and an instrument for controlling expenditure levels, they do not serve other management needs.

9.4 The budget of a public enterprise has also to meet the requirements of accountability. The Estimates Committee, in their report* on Budgetary Reforms, recommended that industrial undertakings should prepare a performance and programme statement for the budget year and that this statement should be made available to Parliament along with the previous year's statement at the time of the annual budget. They further recommended that these bodies might also be encouraged to prepare business type budgets which could be of use to Parliament at the time of the discussion on the budget. In their recent examination of the IOC (Refineries Division), the Committee on Public Undertakings (36th Report) observed:

'The budget at present is used mainly for defining of physical targets against which actual results are compared at the end of the year. If budgetary control is to have a meaning, the relationship between the values which are produced by physical results and the expenses involved in achieving them should be clearly understood, measured and gauged.'

The Committee recommended that performance budgeting which 'has come to be realised as useful in modern management practice ... should be introduced by the IOC in all their Divisions.'

9.5 The budgetary forms and statements of a few selected undertakings that we have examined indicate that some of the larger organizations like the Hindustan Steel and the Heavy Engineering Corporation have already made a beginning in this respect. By showing the distribution of expenditure in terms of end-results and the distribution of costs in terms of the major constituents of the product-mix, their budgets attempt to satisfy the main elements of performance budgeting. The fact, however, remains that public undertakings do not at present prepare comprehensive business-type budgets. In many cases, very wide variations have occurred between the estimates and forecasts made in the budget and the actual figures of performance. Quite a few instances of this type are noted in the auditor's reports.

*20th Report of the Estimates Committee (2nd Lok Sabha) on Budgetary Reforms—April, 1958.

A Broader Approach to Budgeting

9.6 In our view, the budget should not be looked upon merely as an instrument that provides the basis for obtaining funds or as an instrument of control over those who are authorised to spend. It should be viewed as a plan and a programme of action—an integral part of the management dynamics which enables the members of an enterprise responsible for the use of resources, to project their ideas into the future, and concurrently to look back and review the actual performance as compared with promise and intentions. When used merely as an instrument of control, budgeting loses much of its value and leads people to budget more than they expect to spend and less than they hope to perform, turning out figures of performance that show an improved but an unreal and a distorted picture.

9.7 It is a popular belief that the budget need only be expressed in financial units. In fact, other units may sometimes be more effective and convenient, e.g., a manpower budget may be expressed better by stating the estimates as the numbers of men and hours of work required, or a production budget may be prepared more intelligibly in physical terms such as numbers or quantity of goods to be produced or services provided. It is only too often that budgeting is approached from the narrow viewpoint of meeting only the prescribed requirements and dealing only with such aspects of the operation of an enterprise as are strictly necessary for that purpose.

9.8 We feel that a comprehensive budget for the industrial and commercial enterprises should also use non-financial units, wherever this is more desirable, and embrace the entire organization to cover *inter alia* the following range of budgeting activities:

- (i) Production Estimates
- (ii) Sales Estimates
- (iii) Cost of Production Budget with its necessary sub-divisions,
e.g.,
 - Materials Purchase Estimates
 - Labour & Personnel Estimates
 - Overheads Estimates
 - Plant Maintenance Estimates etc.
- (iv) Manpower Budget
- (v) Township & Welfare Estimates

- (vi) Research & Development Estimates
- (vii) Capital Expenditure Budget
- (viii) Profit & Loss Estimates
- (ix) Cash Flow Estimates
- (x) Capital Employed Budget—Fixed and Working Capital.

9.9 For examining the method of preparing budgets, the role of budgeting in policy formulation and the use of the budget as a management tool, the subject may be divided as follows:

- (i) Revenue Budgets—budgets of income and expenditure on revenue account;
- (ii) Capital Expenditure Budgets—budgets covering proposals of acquisition and disposal of fixed assets including the resources required; and
- (iii) Cash Budgets—budgets of cash receipts and disbursements in a given period.

In the ensuing paragraphs, we have attempted to give our suggestions with respect to each of the above types of budgets and the accounting and information techniques required to make them serve as improved tools of management.

The Revenue Budget

9.10 The immediate and compelling necessity for a revenue budget is, of course, the requirement that income over a given period should be sufficient to meet expenditure on the activities planned. We feel that a revenue budget should be deemed to have many more uses than this. Besides being a forecast of income and expenditure, it should be treated as a plan and a base for the formulation of policy and for laying down the expected standards of performance. The revenue budget should, therefore, be prepared in a form which is intelligible to those who examine or approve the estimates and to those who utilize it as a standard for judging performance as compared to estimates.

9.11 We feel that the preparation of the budget should be taken as an opportunity to make a comprehensive and forward-looking review of plans and standards. The budgetary process is a two-way process, the submission upwards of estimates for different units, and the transmission downwards of provisions decided upon at higher levels. We suggest that the work of budget preparation

should begin sufficiently in advance to enable every part of the enterprise to be associated in the preparation of estimates and to have their own separate budgets within the overall budgets of the enterprise. In our view, the budget so prepared will represent a consistent and comprehensive programme of activities expressed in terms of their financial implications.

9.12 The budget papers and programme statements provide a very useful base for formulating policy as they induce the management to look forward and determine objectives and standards in advance. We feel that the budget should be taken as the occasion for reviewing the various decisions taken in isolation, for evaluating them in the overall context of their total financial impact, and for making such changes as the review might indicate to be necessary and desirable.

9.13 We feel that, once made, the budget provisions should be treated as firm but not fixed. A fixed budget has obvious limitations in the case of the industrial and commercial enterprises as it is somewhat difficult to make a forecast of future economic conditions with any great degree of precision. We, therefore, suggest that a certain amount of flexibility should be built into the budgetary process to enable modifications of the budget during its currency. These modifications should take care of changes in the assumptions made at the time of the initial preparation of the budget. We suggest that the higher authorities to whom the necessary budget modifications should be reported for necessary authorisation should also be designated in advance.

Budgetary Control and Management Accounting

9.14 The technique of comparing results with estimates and seeking reasons for deviations can be roughly described as management accounting or responsibility accounting. It involves reporting information, suited to their responsibilities, to the different levels of management which can then take action or offer advice based on that information. We feel that the comparison of the figures of actual performance with those estimated in the budget should be carried out periodically during the currency of the budget as well as after the closing of the accounts. A forward-looking finance organization should undertake this exercise for making relevant reports to all levels of management entrusted with the responsibility for using resources. The frequency and volume of information will naturally depend upon the cost and time required to produce them,

the extent to which deviations from the budget are possible and the probable cost of such deviations.

9.15 We suggest that expenditure budgets in general should be reviewed at least twice a year so that the management may get some mid-year knowledge of how expenditure is faring and make corrections, where necessary, before the year has ended and matters are beyond repair. We suggest that monthly profit and loss accounts and balance-sheets should be drawn up to indicate the profit earned for the month as well as the cumulative profit accruing up to the end of the month. We suggest that the sales and production figures, as also the consumption and yield figures at each plant should be reviewed every month and as soon as possible after the month ends. If these reviews reveal variations, possible adjustments should be explored. This kind of exercise, in our view, will be particularly fruitful for reviewing the cost statement for each product and comparing actual cost figures with the anticipations or standards assumed in the budget. We suggest that monthly cost statements should be drawn up for controlling the scales of materials usage, services and supplies, repairs etc.

9.16 We feel that all management levels required to submit reports and returns should themselves be encouraged to analyse and make use of the data with the assistance that the finance and accounts organization can provide. We feel that periodical comparisons of results with the budget estimates are essential to keep the estimates up-to-date both for purposes of policy formulation and for keeping a regular check on performance. Investigation into the deviations from the results originally estimated, generally referred to as the technique of 'reporting by exception' or 'control by exception', enables effective and speedy control to be exercised over subordinates, where necessary. We feel that with a greater use of periodical reviews and 'control by exception' it will be possible to increase the extent of delegation of powers to the various departments and management levels without diluting the control of supervisory levels.

9.17 We also suggest that the data on budget-performance comparison put up to higher management levels should be so devised as to indicate the causes of variations as well as the persons responsible. We feel that the main purpose of such information reporting and comparisons is to ensure that the policy formulated by the top management is being respected and carried out most effectively.

Management accounting, thus, goes beyond the task of mere inspection since after detecting the variations, and possible areas of faulty planning or mismanagement, it enables management in due time to investigate into causes and to take the remedial action necessary for improved financial efficiency. The idea is not only to ensure that each item of expenditure provided in the budget is being adhered to, but also to assess whether, within the budgetary limits, the money is being put to the best possible use.

The Capital Expenditure Budget

9.18 The capital expenditure budget also involves the same two-fold process as mentioned above in relation to the revenue budget. It is necessary for every public enterprise to have a fairly long-term capital expenditure budget to serve as a framework within which individual schemes can be planned, approved by the Government and taken in hand. This framework, in addition to the schemes for expansion or creation of new assets, should also include proposals for the improvement or replacement of existing assets.

9.19 The budgeting for capital expenditure in the public enterprises is inevitably linked with the procedures followed in the Government since it is the Government itself that provides the funds. We have already referred to the measures necessary for expediting the scrutiny and evaluation of feasibility studies/DPRs in the Government and for expediting the necessary sanctions. As regards the budget itself, we feel that Government should evolve model budgetary forms for use in all the public enterprises. These will ensure that Government does not have to delay sanctions on the ground that relevant points have been omitted or require further elaboration. Recently, the Bureau of Public Enterprises (Ministry of Finance) have, in consultation with the Ministries concerned, evolved a standard form for estimates of capital outlays on the townships of public enterprises with a view to enabling Government to scrutinise the estimates and accord sanctions without delay. We recommend that similar model forms should be worked out in respect of other common items of the capital expenditure programme and circulated to the public enterprises for information and use.

9.20 An essential requirement of long-term capital budgeting is the existence of at least a provisional indication of the funds and other resources likely to be available for capital investment for as

far ahead as the capital project has to be planned. The problem arises from the fact that the Government does not have a distinct capital expenditure budget and the one annual budget of the Government includes both revenue and capital outlays. As the Government provide the capital needed by the public enterprises, long-term planning on a firm basis becomes a difficult proposition. The provisions indicated in the Five Year Plans are for a particular block of five years and do not give a 5-year perspective in the latter years of the Plan. In the United Kingdom, where a similar problem obtains, the Government each year discuss with the undertaking and approve the general lines of its plans for development and capital expenditure for the next five years agreeing to appropriate long-term commitments as well. We recommend that a similar procedure should be adopted in the case of the public enterprises in India to enable them to undertake long-term capital planning on a realistic basis. The controls needed to keep public sector investment generally within the Government's resources can always be prescribed. For instance, Government may each year fix an upper limit on the amounts to be spent on investment by the undertakings during a shorter period ahead, say, 2 years, and retain the right to approve the annual estimate of capital expenditure.

9.21 As regards working to a capital expenditure budget, in simple terms, it involves ensuring that schemes are started as planned and that, once started, schemes are completed with the minimum delay. The management and reporting systems necessary for this purpose have been discussed by us in the sixth and seventh chapters of our Report. We feel that actual results should be periodically compared with the budget with a view to investigating and taking remedial action on them. Such a review will also help in improving the accuracy of estimates in future capital expenditure budgets.

The Cash Budget

9.22 The cash budget is an integral part of the budgetary system. It provides the means of planning, forecasting and keeping check on the funds that will be available to meet payments arising out of either revenue or capital transactions. The purpose of the cash budget is to show the net effect of all receipts and payments. In the private sector where the supply of cash immediately available may be a severe limitation on possible action, the cash budget becomes a major instrument for policy-making. It is sometimes argued that

the cash budget occupies a somewhat less prominent position in the public undertakings since these enterprises are financed and controlled by the Government and the cash budget, therefore, is more a reflection than a determinant of the revenue and capital expenditure budgets.

9.23. We suggest that the cash budget and the preparation of periodical budget comparison statements and cash flow statements should be treated as an integral part of the budgetary process. This is necessary for ensuring the availability of sufficient cash to make payments as they fall due without incurring the unnecessary liability of accumulated cash balances lying idle.

A Budget Manual

9. 24 We recommend that each public enterprise should be asked to compile a comprehensive budget manual to cover the forms for compiling the basic information necessary for the budget, a time-schedule indicating all stages from the start of budget preparation to its approval, the responsibility/cost centres, financial powers related to budgetary levels at each responsibility centre, and the constitution and function of budget committees. The budget manual should also contain the details of periodical budgetary reviews and the forms and procedures necessary for such reviews and for exercising budgetary control. The reporting procedures and the two-way channel of communication between management levels should also be clearly laid down. We have noted that some public undertakings have already drafted comprehensive manuals. We suggest that the Bureau should initiate action in cooperation with the Ministries concerned and with the assistance of outside experts, wherever necessary, suggest model forms and guide-lines and provide effective consultancy assistance to enable the public enterprises to compile a budget manual suited to the needs of industrial and commercial enterprises.

Improved Financial Control and Delegation of Authority

9.25 We feel that the preparation of a business-type budget, periodical budgetary reviews and the adoption of management accounting practices for exercising budgetary control will facilitate an increase in the delegation of powers. A major benefit flowing from a comprehensive budget of the business type is the fixation of responsibility centres and the conferment of commensurate financial powers on the persons entrusted with responsibility for the use

of resources. A proper management information system and periodical budgetary reviews can further ensure that delegated powers are being exercised in a proper manner. In fact, once these improvements are brought about, it should not only be possible to ensure sufficient delegation of authority but also to reduce the emphasis on prior Financial concurrence and the dependence of line authorities like managers, purchase officers, etc on the finance branch.

9.26 We recommend that improvement in budgetary and financial control should be accompanied by a greater delegation of authority as well as a reduction in the number of cases requiring prior financial concurrence. This can be achieved by increasing the financial powers of managers, purchase officers, etc., and providing for inter-branch standing committees for such purposes as the review of tenders, the purchase of equipment and stores. The views and advice of the finance branch should be available to the line authorities in these committees, but the need for prior concurrence should be dispensed with. The practice of obtaining prior concurrence may be of value in Government departments, but it is not profitable in the case of public enterprises. Its elimination will make the line authorities feel really responsible, as indeed they should. We believe it is quite common at present for line authorities to seek to avoid responsibility by referring cases to different departments, particularly finance, even when such a reference is not strictly necessary. It becomes indeed difficult in such cases later to find out where the responsibility for a particular transaction actually lies. We feel that unless these tendencies are kept in check, industrial and commercial enterprises will not be able to function on business lines.

Internal Audit

9.27 A question closely connected with internal financial control is that of internal audit. In any large and complex organization the degree of control and supervision that can be exercised personally by the supervising officer is necessarily limited. It thus becomes necessary to have an internal audit organization which is continually engaged in inspection and internal appraisal of performance in the light of established policy and procedures. From our examination, we find that there is a good deal of misunderstanding in various quarters about the nature, scope and performance of internal audit in relation to the public enterprises. Quite often, internal audit is confused with pre-audit or is viewed as an additional check exercised

in advance of external audit. We have, therefore, considered this question at some length and have attempted to outline what the role and scope of internal audit should be in the public enterprises.

9.28 We feel that internal audit should be viewed as a service provided to the management organization, intended only to serve certain management needs. The internal auditor does not directly take part in management decisions though his findings and observations may influence decision-making. This freedom from the responsibility for executive functions is essential if the task of internal audit is to be carried out objectively. Wherever it gets involved in management or operational decisions, even as a stipulated pre-audit function, it is bound to chafe the line authorities and create difficulties and interfere with the flow of regular work. We suggest that internal audit should be viewed as an independent appraisal activity within the enterprise. The object of the appraisal must be to review accounting, financial and other procedures and the observance of rules and procedures by the line authorities, to insure against fraud and mistakes and, more importantly, to ensure simplicity and efficiency in procedures.

9.29 The internal audit function, organized as a staff function, should be attached to the top management if it is to acquire the necessary effectiveness. The internal auditor should be allowed, and in fact encouraged, to cut across organizational lines in his staff capacity in order to examine the reasons for weaknesses in different areas of management and the working of different departments in relation to one another. It is customary at present to attach the internal audit organization to the Financial Adviser/Financial Controller of the public undertaking. Although in some of the larger enterprises abroad internal audit together with O&M is organized as a separate staff group directly under the top management, we feel that in view of the requirements of external audit in our country it will be appropriate to keep internal audit as a part of the overall finance organization of the enterprise. In a multi-unit undertaking, however, the relationship between the internal auditor of the unit and the chief internal auditor at the head office should be defined in such a way as not to dilute the authority of the General Managers of the units. We feel that the internal auditor of the unit should first report matters to his General Manager and also inform the Chief Internal Auditor at the head office so that any defects detected in working or in the existing procedures as well as the constructive

suggestions that he has to make are brought to the notice of top management as well as other units in the organization.

9.30 In our view, the principal tasks of internal audit are—

- (i) to review the soundness, adequacy and application of accounting, financial and operational controls;
- (ii) to ascertain the extent of compliance with prescribed plans and procedures and the accuracy of accounts and other data developed within the organization;
- (iii) to make constructive suggestions for improvement; and
- (iv) to review and report the action taken by line authorities on the points brought out in previous audit reports, both internal and external.

9.31 The management can also use the internal audit organization for discharging their responsibility for the protection and efficient utilization of the assets of the enterprise. Internal audit can thus be asked to verify that proper authorizations exist for the acquisition and disposal of the assets of the enterprise and that the prescribed procedures ensure that disbursements are validly made, and that the liabilities are incurred only in respect of the legitimate operations of the enterprise. The internal auditor while examining the documents, verifying inventories etc. can also help in the prevention and detection of frauds, misappropriations and pilferage.

Relationship between External and Internal Audit.

9.32 Since internal audit is a staff function for the assistance of the management, it does not have any direct relationship with any external agency, audit or otherwise. The scope and approach of the internal auditor and that of a outside auditor differ widely. The former is responsible to management, and approaches his work more from the point of view of offering advice and suggestions than highlighting irregularities while the latter is independent of management and his responsibilities for reporting facts and transactions are to authorities other than the management. The fact, however, remains that the aims of both kinds of audit correspond in certain areas. The strengthening of internal audit should, therefore, make it possible in practice to reduce the scope and intensity of the audit performed by an external agency. It can be said that both these types of audit function more or less, on similar lines and go over the same area and

records. For instance, both type of auditors are interested in examining whether the system of internal checks is sound and effective, whether the accounts, records and statements are true, whether assets and liabilities have been duly verified and have been correctly stated on record, and whether remarks and observations made in previous audit reports have been acted upon.

9.33 We recommend that the internal audit organization should be effectively organized in every public enterprise. We feel that besides promoting greater efficiency, this will also help in reducing the scope and intensity of external audit. We also recommend that the Bureau of Public Enterprises (Finance Division) should provide consultancy assistance to the public undertakings to enable them to set up adequate finance and accounts organizations including internal audit, on the right lines and with scope and objectives of work suited to their requirements.

Role of the Financial Adviser

9.34 The functions that the finance and accounts organizations in the public enterprises should discharge, and as we have outlined above, are such as will necessarily require a review and re-orientation of the present role of the principal finance officer (Financial Adviser/Financial Controller) of the enterprise. We have already indicated that it is of the utmost importance that the Financial Adviser of an enterprise should deem himself to be an integral part of the management team and not look upon himself as an outsider representing the financial interests of the Government. The latter impression gets somewhat reinforced by the fact that most of the Financial Advisers of the public undertakings today are Government officers on deputation. We reiterate our recommendation that for proper relationships to prevail and for the finance organization to have the proper forward-looking and helpful approach, the power to appoint the Financial Adviser should be vested in the management board and not reserved to Government. However, the management boards may be directed to make this appointment after consultation, with the Government.

9.35 We envisage the role of the Financial Adviser as that of the principal adviser to the chief executive in all financial matters. The primacy of the chief executive should be maintained in the management field. Otherwise, the whole finance organization becomes a great burden on the operation of the enterprise, and much of its utility as a vital management aid gets lost. The same analogy holds

good for the subsidiary units. We suggest that the Financial Advisers should be encouraged to place greater emphasis on the management accounting aspect of their working rather than on maintenance accounting or insistence on checks, scrutiny and approval of proposals coming from different departments. It will indeed be a very harmful development if the finance organization of a public enterprise starts to function as the finance department of the Government functions in relation to other Government departments.

9.36 In simple terms, the management is charged with the responsibility of making the maximum use of the resources entrusted to it, and in this task the financial adviser and his organization have an extremely important role to play. Good financial management does not, however, seek to dictate to line management, but aims at providing to management, information on resource utilization and statistical analyses that reveal what the plans and performance data truly signify, so that management may improve the efficiency of resource utilization and ensure greater profitability.

2. Materials Management

9.37 Materials management, as the name suggests, covers the efficient management of materials in all its aspects, affecting the flow, conservation and utilization, and the quality and cost of materials. The range of functions includes:

- (i) materials planning and programming;
- (ii) purchasing and inventory control;
- (iii) receiving, warehousing and store keeping;
- (iv) transportation and materials handling; and
- (v) disposal of scrap and surplus including the utilization of by-products.

9.38 The economical working and development of public sector projects require that the available capital resources are used judiciously and most economically. Among the areas where standards of cost control need to be applied most strictly is that of the control of inventories. Apart from costing a good deal of money in avoidable purchases, surplus inventories load additional liabilities on an enterprise by way of carrying costs. These liabilities resulting from tied-up capital, additional costs of storage and handling and deterioration and obsolescence costs can be a permanent drag on the effort to elevate the financial status of an enterprise. The inventory-carrying

costs in India, according to conservative estimates, are reported to be about 15 to 20 per cent of the total value of the inventory.

Value of Inventory Holdings

9.39 The value of inventory holdings of the public undertakings, except the purely trading and financial concerns, constitutes the major component of their working capital. The position as on 31st March, 1966 in respect of 40 running concerns, both companies and statutory corporations of the Central Government was that, out of the working capital of Rs. 384 crores, inventories accounted for Rs. 361 crores. The break-up of this amount in its various components was as follows:—

| 1965-66 | |
|---|-------|
| (Rs. in crores) | |
| Raw Materials, stores and spares (both for Production and Construction) | 222.5 |
| Works in Progress | 41.5 |
| Finished goods | 82.9 |
| Other items | 14.2 |
| TOTAL | 361.1 |

9.40 The position as on 31st March, 1965 of inventory holdings as compared with net sales in the 43 running companies of the Central Government divided under three broad categories is indicated by the following table:*

| (Rs. in crores) | | | | |
|---|-----------------------|-----------------------------------|--|------------|
| Description of Inventory | Running concerns (34) | Promotional and Developmental (5) | Under construction but in partial production (4) | Total (43) |
| 1. Raw materials, stores and spares (including in transit) loose tools, jigs and fixtures | 181.0 | 0.5 | 29.0 | 210.5 |
| 2. Stock (finished and semi-finished goods) | 87.0 | 1.5 | 5.5 | 94.0 |
| 3. Total (1+2) | 268.0 | 2.0 | 34.5 | 304.5 |
| 4. Net sales | 547.0 | 6.5 | 12.5 | 566.0 |
| 5. Ratio of net sales to total inventory value (4) : (3) | 2 : 1 | 3.3 : 1 | 1 : 2.75 | 1.8 : 1 |

*Figures taken from Audit Report (Commercial) 1966 and rounded off to the nearest $\frac{1}{2}$ crore. Figures in brackets in table headings indicate the number of companies of that category.

Evidence of Overstocking

9.41 It is difficult to lay down a single standard to assess in precise terms the adequacy or otherwise of inventories. However, there are certain tried ratios which provide a good insight into the extent of overstocking. A common determinant is the value of inventories expressed in terms of consumption in months or cost of production in months. In five undertakings *viz*, Hindustan Teleprinters, Hindustan Aeronautics Ltd, Hindustan Shipyard, Bharat Earth Movers and Bharat Electronics, the inventory holding was higher in value than 2 years' cost of production; in five others it was equivalent to less than 2 years' but over 1 year's cost of production. The reports of the studies conducted by the Industry and Mining Team and the Management Division of the Planning Commission indicate that in many undertakings there is good scope for reducing the inventory holdings to 8 months cost of production or less.

9.42 Another tried method of assessing overstocking is to strike the ratio between the capital locked in inventories and the sales turn-over. The sales-inventory ratio in respect of the 34 running concerns of the Central Government (companies only) cited in para. 9.40 as on 31st March 1965 was slightly over 2:1. These are less favourable than the ratio of about 2.75:1 reported to be obtaining in the private sector according to a recent Reserve Bank Survey of 1001 joint stock companies. According to the Survey, capital amounting to a little over Rs. 800 crores was locked up in inventories as against the annual sales turn-over of Rs. 2,200 crores. The corresponding figure for some of the developed countries is placed in the neighbourhood of 5:1.

9.43 The sheer size and value of the inventory holdings of public enterprises indicate that it is essential to subject them to strict technical scrutiny. Even a marginal reduction brought about in the holdings will more than repay the cost and effort of such an investigation. It is equally important to review procedures both in the public undertakings and the controlling Ministries to reduce the administrative lead-time for obtaining materials which forces managements to maintain higher stock levels. The Committee on Public Undertakings have observed in a recent report (40th Report, March 1967) that 'if the inventories of industrial running concerns could be reduced to 6 months production—which would by no means be difficult...it would mean release of capital to the extent of Rs. 104 crores.'

Existing Position

9.44 Most public enterprises have set up units for materials management under the Controller of Stores and Purchases/Materials Manager. Despite the varying requirements in different enterprises, managements have been confronted with certain broad problems of a somewhat similar nature. Most undertakings, for example, have had to break down their large inventory holdings into manageable segments for applying selective control in accordance with their monetary value, frequency of demand, criticality, and essentiality. To keep the task manageable, an attempt has also been made to control the number of items by codification and standardization, and fixation of optimum stock levels. While many of the larger public undertakings have set up organizations for a better management of materials and have also made a beginning in adopting modern scientific methods, most of them do not as yet have an effective materials management set-up.

9.45 Some of the more common defects highlighted recently in the 40th report of the Committee on Public Undertakings as well as the earlier reports of the Parliamentary Committees and the study reports of the Industry and Mining Team and the Management Division of the COPP, Planning Commission are noted below:

- (i) the inventories of industrial running concerns were in many cases unjustifiably high as indicated by their value in terms of months of cost of production and the sales-inventory ratio;
- (ii) on the same bases, the inventory holdings show an increase in 1964-65 as compared to the position in 1963-64;
- (iii) many undertakings were still to adopt scientific methods of inventory control like classification and codification, fixing limit on stock levels, A B C analysis etc;
- (iv) separation of indenting and purchasing functions and stores and purchase functions has not been found conducive to efficient materials management;
- (v) due to delays in delivery and want of materials there was fall in production and under-utilization of capacity in many undertakings;
- (vi) many undertakings did not have proper storage and

handling facilities or a proper system of physical verification and stores accounting, as a result of which there were losses in storage, and discrepancies were discovered in stock after a considerable lapse of time;

- (vii) in quite a few undertakings there was non-utilization or delayed utilization of by-products as a result of imperfect planning;
- (viii) the suppliers under the DGS&D rate contract did not keep to promised delivery schedules as they preferred to deal with purchasers directly and outside the rate contract; and
- (ix) purchase procedures in many undertakings were lengthy, and involved a large number of references to the finance branch.

9.46 The Committee on Public Undertakings, after their examination of the working of materials management in public enterprises, concluded that 'although most of the undertakings are conscious of heavy investment in inventories, there has not been a continuous effort to control the inventories or to introduce new techniques of materials management'.

Scope for Improvement

9.47 In simple terms the aim of good inventory management is to have the proper amount of stock on hand whenever required, neither too much, nor too little. It consists of maintaining stock levels sufficient to meet the demand, and the replenishment of the stock levels in such a way that—

- (i) items are supplied on demand whenever and wherever required;
- (ii) the overall investment in inventories is kept to a minimum consistent with (i); and
- (iii) the workload of supply transactions, including requisitioning, procurement, and the stock status and transaction reporting is controlled, both in detail and in frequency, within the framework imposed by (i) and (ii).

A Central Control Section

9.48 We recommend that as a first step, materials management should be accorded due recognition at the top level where a Central Control Section should be set up for materials planning and for

planning and securing the introduction of modern techniques of materials management such as codification and standardization, ABC analysis, value analysis etc. The Bureau of Public Enterprises should provide the necessary consultancy assistance to the public undertakings.

Materials Management Manual

9.49 We suggest that a comprehensive materials management manual should be drawn up to give concrete shape to the relevant scientific concepts and to outline the prescribed procedures relating to indenting, procurement and stocking of materials. We feel that the improved methods of materials management should not only be practised by the personnel of the materials management group and stores purchase office, but should also be known to all persons in the enterprise concerned with their use. We feel that a comprehensive manual will help to disseminate information to all relevant levels and lead to wide and general adoption of improved techniques. The laying down of standard procedures in the manual will also help to reduce delays by cutting out the references that are now being made to the stores purchase branch or the finance branch merely for the purpose of securing instructions.

Level of Materials Management Function

9.50 Even though separately organized, materials management is directly concerned with most areas of management *viz*, production, maintenance and sales, and even accounts. We suggest that in the management structure, the materials management function should be placed at a sufficiently high level to enable the effective exercise of checks and balances cutting across different management branches.

Simplifying Operating Procedures

9.51 A factor that has a great bearing on the problem of inventory control is lead-time. This has two broad components: *viz*, procurement lead-time, which is a function of the market situation and the adequacy and efficiency of suppliers; and administrative lead-time, which is a factor that depends on the organization and its operating procedures. Every simplification of the procurement, receipt and inspection procedures will help to shorten the administrative lead-time which, in turn, will tend to reduce the stock holdings and the safety stock levels, and thus release a proportion of the capital tied up in inventory.

9.52 With a view to simplifying the operating procedures, we make the following recommendations:

- (i) On the basis of the annual plan or the longer term five year plan of the enterprise, the Central Control Section for materials planning and management should draw its own plan assessing the volume of work to be done and the amount and type of material to be procured. Besides facilitating normal procurement processes, such advance knowledge will also help to secure timely manufacturing capacity of scarce items on a competitive basis. In this way, the purchase policy of the enterprise can be more closely integrated with its inventory policy.
- (ii) Codification and Specification which is basic to proper inventory control should be given the highest importance. Besides identifying and eliminating duplicate stock items, it helps promote variety reduction, provides the means for determining substitutes and enables standardization and development of specifications.
- (iii) Financial concurrence rules for tenders should be clearly delineated both for limited tender enquiries and open tenders. Standing Committees should be set up for scrutiny and sanction of tenders to avoid references to and between different branches of the enterprise. The need for repeated financial sanctions should be avoided in the case of approved schemes and programmes.
- (iv) For purchases with predetermined financial limits, as indicated in the budget, there should normally be no reason for prior financial concurrence except for the very costly items. With the improvements in accounting techniques and information reporting systems, these levels can be progressively elevated. In cases where the requirement of prior financial concurrence is continued a target time span should be laid down to reduce the administrative lead-time.
- (v) Price lists of stores and equipment and lists of approved supplies should be maintained on a current basis to avoid having to seek fresh authorization as a result of recent changes.
- (vi) For low cost items the system of purchasing should be very much simplified, reducing or, if possible, even eliminating the need for enquiry and quotations.

External Reasons for Excessive Inventories

9.53 There are many external reasons too for the heavy burden of the inventories that public undertakings carry. The inadequacy of the necessary infra-structure, transport bottlenecks, lack of supporting industries for the manufacture of spares and small items, apprehension of sudden import cuts due to foreign exchange crises, general shortage and long waiting lists create an atmosphere which forces managements to play safe and err on the side of surplus for fear of stock-out and hold-up of work. In addition to these factors, over which managements have little or no control, there are problems which are inherited by operating managers as a result of the inadequacies and mistakes in the planning and construction of projects. In the main, the above problems may be briefly outlined as follows:

- (i) Surplus stocks and expensive construction equipment left over from the construction stage continue to inflate the inventory figures for several years after the project has gone into operation.
- (ii) Lack of knowledge about the likely consumption rates of spares and stores in the case of new plants causes managements to procure items on the recommendations and pressures of the foreign collaborators and suppliers.
- (iii) Paucity of indigenous supply and resultant long procurement lead-times do not allow the permissible stock levels to be brought down.
- (iv) Lengthy and dilatory procedures in the Government, particularly those relating to the release of foreign exchange and issue of import licences make it difficult to reduce lead-time.

Steps for Improvement

9.54 Substantial amounts of equipment required during the construction stage of a project become redundant once the project goes into operation. We suggest that the standards to be observed in purchasing these items should be stricter than those applied on items coming into continuous and recurring use. The first essential is to plan in advance the total requirements of all kinds of materials for the whole period of construction and then break down this requirement year-wise and for shorter durations according to a realistic schedule. Within reasonable limits, the longer the time available for construction the less should be the requirement of items like

earth-moving equipment, vehicles, common tools, safety materials like goggles and boots, etc. It is necessary, therefore, to be conservative in estimating the requirements of these items and not base the estimates on too optimistic a time-schedule of construction.

9.55. We recommend that each project should have a central planning group for materials under the chief engineer in charge of construction for planning the total requirements and phasing their procurement. There is also the question, to which we have already referred, of achieving a greater degree of coordination between different projects to facilitate common and more economical utilization of heavy construction equipment. The opportunities that new projects offer for the continued and fuller utilization of costly construction machinery, often imported, that becomes redundant in completed projects have not been fully utilized in the past. It may be mentioned that better deployment and utilization of construction equipment will be possible with the setting up of multi-unit corporations having control of a number of projects.

9.56 Spares stocks which constitute the bulk of the inventories pose a real problem. Spares stocks include a substantial amount of slow-moving items which are in the nature of 'insurance spares' against unforeseen breakdowns. Since most foreign suppliers have to guarantee the plant's integrated performance upto the rated capacity, they have been known to be unduly cautious in recommending the provision of adequate spares. Since the management in these cases is generally unacquainted with the likely needs of the new plants, it becomes almost obligatory on management to accept the recommendations of the collaborators. This has led to very heavy inventories in some plants. We feel that the recommendations made by the foreign collaborators in this regard should be subjected to a thorough scrutiny, and examined in comparison with the position prevailing in similar plants abroad, including the foreign collaborators' own plants, to ensure that a new project was not being saddled with unduly heavy stocks of slow-moving items.

9.57 The real remedy lies in promoting the indigenous manufacture of the spares and small parts that are at present imported from abroad. A few undertakings *e.g.*, Hindustan Steel and Heavy Engineering Corporation, have already set up technical cells or committees to reduce the dependence on imports of this kind. We suggest that a nucleus cell consisting of technical experts as well as materials management experts should be formed in each project, especially in those with substantial dependence on imported items, to

systematically identify and catalogue the spares and obtain their manufacturing drawings and specifications as a first step towards establishing their indigenous manufacture. For items required non-repetitively and in small quantities, projects should not delay in creating their own workshop facilities.

9.58 It will be appropriate to refer here to the difficulties that are being faced by the public enterprises as a result of the higher prices charged by indigenous suppliers for products, which are often also defective or of poor quality. Many undertakings are giving preference to indigenous products even though their prices are 15 to 25 per cent higher than the prices of similar imported items. In some cases, the differential is even greater. For instance, the Heavy Engineering Corporation is normally giving a price preference upto an excess of 50 per cent, the Hindustan Shipyard upto 40 per cent and the Coal Washeries of the Hindustan Steel Ltd upto 33 per cent. Sometimes, the Directorate General of Technical Development (DGTD) has flatly refused to allow the import of products on the ground that they were available within the country. Such decisions that ignore considerations of quality, cost and long delivery schedules do not help the purchasing undertakings or encourage indigenous producers to maintain and improve their standards. These factors create serious inventory problems for the undertakings. We recommend that Government should evolve effective inspection arrangements to exercise sufficient check on the indigenous manufacturers and the quality of their products so that these manufacturers do not enjoy too monopolistic or commanding a position in relation to the purchasing public enterprises under the shelter of Government's understandable desire to promote import substitution. We also suggest that a uniform policy of price preference should be formulated by the Government, fixing different levels for different classes of products, to serve as guidelines for the public enterprises, indigenous manufacturers and the DGTD.

9.59 Till many items of the inventory are readily available in the country, it will be appropriate to adopt measures in addition to those of physical inventory control for preserving funds, particularly foreign exchange. We feel that it will be of advantage to prescribe in addition to physical levels, financial norms linking the permissible levels of inventory to working capital and net sales. We are of the view that such financial constraints, necessary to insu-

discipline in making purchases, will automatically make funds flow towards the purchase of priority items.

Procedures for Import by Public Undertakings

9.60 It is, of course, necessary to scrutinise very carefully every application for import licence whether it emanates from the public sector projects or private concerns. The fact, however, remains that lengthy procedures are bound to proportionately increase the lead-time in obtaining items from abroad which, in turn, would affect the safety stock levels of these imported items. It is evident that consistent with the requirements of scrutiny by Government agencies like the Department of Economic Affairs and the DGTD, the procedures have to be considerably streamlined to reduce the lead-time as much as possible.

9.61 Several undertakings have alleged that the existing procedure for getting the necessary foreign exchange is cumbersome, and considerable time is taken in getting clearance from the DGTD and the licences from the Chief Controller of Imports and Exports. The working of both these offices has been examined in detail by Study Teams. On the recommendations of the Swaminathan Committee and the Mathur Committee, Government have already introduced certain reforms in procedures. Time limits have been prescribed for the clearance of applications for import and public enterprises and private concerns have been placed on the same footing so that the former do not now have to go both to the administrative Ministry and the Department of Economic Affairs to get the release of foreign exchange for the import of stores and spares.

9.62 The Mathur Committee made several specific recommendations for facilitating imports by the public enterprises. These recommendations which were accepted by the Government of India *vide* their notification of 5th May, 1966 are in different stages of implementation. We feel that they should be effectively implemented as soon as possible. The following steps need to be taken in particular:

- (i) The facility of annual licensing should be extended to the public sector projects and also be made applicable for the import of raw materials, components and spares subject to the necessary restrictions and endorsement of the licensing authority.
- (ii) Applications for equipment required for emergency replacement should be dealt with on the same lines as

those from the private sector, in the sense that individual applications should not be referred to the Department of Economic Affairs and the administrative Ministry for the release of foreign exchange.

- (iii) The ceiling for import of raw materials, components and major assemblies should be allocated project-wise with full delegation of powers. The project authority should have the power to operate the foreign exchange within the allocations, subject to periodical reporting to the Ministry concerned, without individual applications having to go to the administrative Ministry or the Department of Economic Affairs.
- (iv) It should not be necessary for a project to get indigenous clearance on individual applications for the import of raw materials components and major assemblies. Such clearance should be obtained before a project authority consolidates its demand for foreign exchange allocations in the beginning of the calendar year.

9.63 We would like to reiterate in the end that materials management is not a function that belongs only to one branch of the management organization. Since it includes the efficient utilization of materials in all its aspects, it is an activity that concerns, directly or indirectly, all managerial and technical personnel. We, therefore, recommend that the materials management function should be given its due place in the management organization, and the personnel concerned in the other departments such as production, maintenance, sales and marketing, and accounts should also have adequate knowledge of the overall plan of activities and procedures adopted for better materials management.

9.64 We also suggest that training in materials management should be given greater importance, and the effort should be to have fully trained staff in the materials management organization. We feel that it will be advantageous to impart short-term training to the personnel of other departments as well, since the management of materials is an integrated programme requiring the cooperative action of all the concerned branches. We suggest that adequate permanent facilities should be created to provide both long-term specialised training to the personnel of the materials managers' department as well as short-term training courses for the personnel of other connected departments.

CHAPTER X

FINANCIAL MATTERS AND PRICING

1. Financial Matters

10.1 During the Third Plan period, the investment in the public sector has more than doubled, as far as the undertakings of the Central Government are concerned. At the commencement of the Third Five Year Plan, 48 units accounted for a total investment of Rs. 953 crores. By the end of the Third Plan period, 26 more units had come up and the total investment increased to Rs. 2,415 crores in 74 units. That most of this investment was made by the Central Government is clear from the following table:

| | |
|-------------------------------------|-------------------|
| Central Government | 2304 |
| State Governments | 8 |
| Private parties (Indian) | 23 |
| Private parties (Foreign) | 80 |
| TOTAL | <hr/> <u>2415</u> |

Loan-Equity Ratio

10.2 Before the commencement of the Third Plan period, broad principles had not been laid down for determining the loan-equity ratio in public enterprises. But, in 1961, the Government of India decided (*vide* letter of 13th June, 1961 of the Ministry of Finance) that 'while making provision for the projects in the public sector the working assumption will, unless there are exceptional reasons to the contrary, be that each project will be financed on the basis of approximately half its capital being in the shape of equity and the rest being in the shape of loans.' Since then the attempt has been to finance public undertakings in such a way as to reduce the imbalance that earlier investments had created between equity and loan. However, parity between equity and loan is yet to be achieved in most undertakings. This is particularly the case in new undertakings in which policy is to make initial investments in the form of equity. The position as at the end of the Third Plan

period in respect of the 74 Central Government undertakings was as follows:

| | |
|--------------------------|------------------|
| Equity Capital | Rs. 1368 crores. |
| Long-term Loan | Rs. 1047 crores. |
| | <hr/> |
| TOTAL | Rs. 2415 crores. |
| | <hr/> |

10.3 It does not seem appropriate to prescribe a single, common loan-equity ratio of 1:1 for all public enterprises irrespective of their size and productive function. In our view, a distinction should be made between capital intensive enterprises like the Hindustan Steel, Heavy Engineering Corporation, and trading concerns like the State Trading Corporation. We suggest that the whole question of equity-loan ratio should be re-examined and a proper capital structure for different categories of public enterprises worked out. We also suggest that the loan-equity ratio of an undertaking should not be treated as rigidly and unalterably fixed. There should be room for flexibility and variations depending upon the generation of internal resources and the increase in the borrowing power of the undertaking.

Release of Funds for Capital Expenditure

10.4 Funds required by the public enterprises for the creation of capital assets are provided to them on an annual basis within the sanctioned budget. Releases during the year are made by the administrative Ministry out of the budgeted amounts. Under a Ministry of Finance OM of October 21, 1960, the administrative Ministries were authorized to release funds initially upto 70 per cent of the actual budgeted amount. But, in 1965, taking note of the fact that, in some cases, large amounts drawn by public undertakings had remained unutilized, and with a view to avoiding needless strain on the ways and means position of the Government as a whole, the Ministry of Finance (*vide* their letter of May 31, 1965) suggested a somewhat stricter discipline in the matter of release of funds. The position now is that the administrative Ministries are expected to plan on a quarterly basis and make releases in monthly instalments after consulting the Ministry of Finance. Many public undertakings, e.g., Bharat Heavy Electricals, Heavy Electricals, Hindustan Machine Tools, Cochin Refineries, Neyveli Lignite Corporation, and Indian Oil Corporation, have indicated to us that the existing procedure causes undue strain in securing the release of funds.

10.5 While we recognize the need for Government to exercise financial control in the matter of capital expenditure and to ensure that public enterprises do not obtain withdrawals in excess of requirements, we feel that such a strict pre-scrutiny for the release of budgeted amounts is not justified. We recommend that the existing procedures should be liberalised to ensure that work is not held up while projects wait for an elaborate pre-scrutiny of already budgeted amounts. This seems to have happened recently in the projects of some of the enterprises cited in the preceding paragraph. We believe that it should be possible for the administrative Ministry, as also the Ministry of Finance, to exercise post-withdrawal scrutiny of the manner in which funds have been released and utilized by the public undertakings. If necessary, stricter discipline can be enforced in respect of such undertakings as have persistently made defaults in this regard.

Borrowing for Capital Expenditure from the Open Market

10.6 Except for a few cases of private participation in capital, the public undertakings are wholly and directly financed by the Government. It has been suggested at times that the comparative security that Government financing offers fails to instil the necessary financial discipline in the public enterprises and that it would, therefore, be better if they were asked to resort to borrowing from the market on their own credit even for capital expenditure. We, however, feel that the amount of capital required by the public enterprises is much too large to be raised in the open market without the support of a Government guarantee or the Reserve Bank of India. In our view, such unguaranteed borrowing by highly capital intensive projects that usually have long periods of gestation is not a realistic proposition at the present moment.

A Special Financial Institution for the Public Sector

10.7 Another suggestion that has been made to us is that whatever capital finance Government plan to provide to the public enterprises should be channelled through institutions like the Industrial Development Bank of India (IDBI) or through an institution set up specially to cater to the needs of the public enterprises. It is pointed out that similar institutions have been set up and have worked with considerable success in countries like Yugoslavia and Italy. It is argued that when Government provide funds directly to the enterprises, the process becomes one of making allocations to achieve certain physical targets laid down in the Plan and not one

of making investments based on calculations of profitability and other economic benefits. In this context, we should point out that the promotional activities envisaged for the IDBI in the Industrial Development Bank of India Act, 1964 are quite comprehensive. These, in brief, are—(i) planning and developing industries to fill up the gaps in the industrial structure of the country; (ii) providing technical and administrative assistance to industrial concerns or persons; and (iii) undertaking researches and surveys on marketing and investments and techno-economic studies for industrial development. It is true the IDBI has so far directed its operations mainly to the financing of private concerns. But the Act does enable it to finance industrial units in the public as well as the private sector. The Report of the Study Team on Economic Administration refers to the fact that the IDBI is a new institution and observes that it has yet to make significant progress in fulfilling its promotional obligations. It also points out that as yet, the IDBI does not have adequate technical personnel for undertaking the economic appraisal of project reports.

10.8 One of the arguments advanced against any arrangement in which the same institution lends money to public enterprises as well as private concerns is that this may lead to difficulties for some crucial public sector projects. These projects may have a comparatively low degree of profitability but may have crucial importance for the overall economic development of the country. If projects are to be financed exclusively on the basis of profitability such projects may receive a low priority. This may make it impossible for the Government to ensure that industrial development takes place in accordance with Plan priorities. One way to guard against this danger may be to earmark the total volume of capital finance that the institution should provide to the public sector and relate this to the priorities and targets in the Plan.

10.9 As we have stated in an earlier paragraph, those who advocate that public sector projects should be financed through a separate financing institution and not through direct departmental disbursement, do so for two main reasons—one that the need to withstand the close and strict scrutiny of an independent credit institution will promote the commercial viability of projects, and two, that the flow of finances will be more regular when there is no need for frequent departmental pre-scrutiny. As for the first of these two reasons, we feel that neither the IDBI nor any other existing

financial institution in the country can as yet claim to have adequate expert personnel to undertake the economic appraisal of the project reports of public enterprises. The question, therefore, becomes one of improving the quality of scrutiny and appraisal and training the adequate number of competent experts. We have already outlined our proposals for this in paragraphs 6.42 and 6.44. As for the second argument, we feel that the recommendation that we have made in paragraph 10.5 of this Report will help to do away with the bottlenecks that the current system of pre-scrutiny causes. We, therefore, feel that the creation of a separate financing institution for the public sector will, at this stage, be unnecessary and premature.

Working Capital Requirements

10.10 The requirements of the public enterprises for working capital are normally to be met through cash credit arrangements with the State Bank of India or its subsidiaries, or by temporary utilization of internal resources. The total amount borrowed from the State Bank of India by the public undertakings stood at over Rs. 90 crores at the close of the year 1965-66. Government do not provide short-term loans to the public sector projects unless there are exceptional reasons for doing so. We agree with the current policy of the Government, that for working capital requirements public enterprises should normally obtain funds from the banks without depending on the Government or a Government guarantee. However, it needs to be recognized that in certain cases public undertakings might be unable to secure funds in this manner, particularly in the initial stages. For instance, the projects of Bharat Heavy Electricals (BHEL) have been experiencing great difficulty in obtaining funds from the State Bank of India or its subsidiaries without a Government guarantee. In a recent report*, the Committee on Public Undertakings have commented on the difficulty faced by the Tiruchi Project of the BHEL and remarked that if projects 'are unable to obtain their requirements from Banks, the only course open to them is to temporarily use the funds made available by the Government for capital works.' The Committee has held this to be improper, and observed that 'in the circumstances, Government do not seem to have left the projects with an alternative.' The Committee has also observed that they 'see no

*Para 81 of the 39th Report of the Committee on Public Undertakings on Bharat Heavy Electricals, Ltd—March, 1967.

reason why the public sector projects should not be authorised to borrow their entire requirements from the Banks on the basis of a guarantee provided by the Government.' We recommended that Government should be willing to provide this guarantee and to consider the request of public undertakings even for working capital requirements in case the latter are unable to obtain funds from the Banks. This will ensure that the commissioning of projects or their operations do not suffer serious setbacks resulting in delayed benefits from the project or inadequate utilization of capacity and consequent loss of production.

10.11 At present, there is a restriction that public enterprises should ordinarily bank with the State Bank of India or its subsidiaries. Under certain conditions, public undertakings are, however, authorised to open current accounts with scheduled banks having deposits of over Rs. 10 crores. Recently, cooperative banks fulfilling certain minimum conditions have been placed on par with the State Bank for the purposes of receiving deposits from the public undertakings. We feel that the existing instructions on this subject are unduly restrictive. Considering that the settled policy is that public undertakings should not depend on the Government for meeting their working capital requirements, it appears somewhat incongruous to impose a restriction that they should bank only with the State Bank of India or the cooperative banks. Many undertakings have stated that in certain areas the other scheduled banks are in a position to offer better terms and services which they are not able to avail of because of the existing restrictions. We recommend that public enterprises should be authorized to deal with any scheduled bank that has deposits above a certain limit. Public enterprises should be free to have cash credit arrangements with such banks for meeting their working capital requirements, with the condition that information about such arrangements should be furnished to the Government.

Revenue Budgets—whether approval necessary

10.12 There is no obligation at present for Government companies to present their revenue budget estimates to the Government or Parliament. In the case of the statutory corporations the revenue budget estimates are also presented to Parliament if statutorily required. We have already recommended that full and clear information on the working of the public enterprises should be presented to Parliament and improvements made in the form and

methods of budgeting followed by the public enterprises. We have considered whether these enterprises should also present their revenue budgets to Parliament for approval. It has to be recognized that giving full publicity to revenue budget estimates might not be sound business policy, and is likely at times to place the enterprise in a disadvantageous position *vis-a-vis* its counterparts abroad or in the private sector. Working to a revenue budget, which has been approved by a higher authority, can also prove to be a very severe constraint on an undertaking that is expected to be run on business and commercial lines. For these reasons, we recommend that a public undertaking, whether it is a Government company or a statutory corporation, should not be required to submit its revenue budget to Government or Parliament for prior approval unless it is a deficit budget and the Government is expected to make up the deficit.

Generation of Surpluses or Internal Resources

10.13 While considering the surpluses generated by the public enterprises it is necessary to recognize the fact that much of the public sector investment is still tied up in undertakings under construction or relates to promotional and developmental undertakings where accumulation of surpluses is only of secondary importance. By the end of the Third Plan period, the pattern of investment in different categories of undertakings of the Central Government was as follows:

| | (Rs. in crores) |
|--|-----------------|
| (i) Undertakings under construction | 332 |
| (ii) Running concerns (including Hindustan Steel with an investment of Rs. 960 crores) | 1859 |
| (iii) Promotional and developmental undertakings | 217 |
| (iv) Financial institutions | 7 |
| TOTAL | <u>2415</u> |

Taking only the undertakings of category (ii) above, it can be seen that the total internal resources generated by them during the period of the Third Plan amounted to Rs. 287 crores. Of this amount as much as Rs. 218 crores related to the provision for depreciation (excluding replacement expenditure) and the remaining Rs. 69 crores to retained profits.

Need for clear indications

10.14 The surplus expected from public enterprises have assumed great importance with the rise in investment in the public sector during the period of the Second and Third Plans. The Industrial Policy Resolution of 1956 stated: 'it is to be expected that public enterprises will augment the revenues of the State and provide resources for further development in fresh fields.' The Second Plan, however, did not specify the surpluses expected from the public enterprises. But while referring to the shortfalls in Plan resources it mentioned the possibility of covering the gap from the profits of public enterprises. It was only in the Third Plan that a specific amount of Rs. 450 crores was indicated as the expected surplus from public enterprises other than the Railways. Of this, Rs. 300 crores were to come from the enterprises of the Central Government and Rs. 150 crores from those of the State Governments. It was made clear that by 'surplus' was meant the balance of resources expected to be available with the enterprises after providing for their working expenses, normal replacements, interest payments and dividend. 'Surpluses' or 'internal resources' are thus taken as the aggregate of profits retained by the enterprise in the form of reserves and the provision for depreciation (excluding replacement expenditure).

10.15 Even in the Third Plan, the surpluses shown as anticipated from the public enterprises were at best tentative. No break-up was attempted either undertaking-wise or industry-wise. In their report* on the National Coal Development Corporation, the Estimates Committee had suggested that 'the surplus expected of the various public undertakings during the Third Plan period may be laid down so that they may make efforts to realise the same.' In reply the Government stated that this would be difficult since the Third Plan estimates were tentative and not based on sufficiently firm data. Government, however, indicated that, as a part of the Fourth Plan exercises efforts were being made to work out the expected surpluses for each undertaking. From the draft outline of the Fourth Five Year Plan, it appears that these efforts have not borne fruit. The draft outline envisages a surplus of Rs. 760 crores from the Central Government enterprises, excluding the Railways, and Rs. 325 crores from the enterprises of the State Governments, but fails to give an undertaking-wise or industry-wise break-up of these surpluses.

*32nd Report of the Estimates Committee on National Coal Development Corporation—1962-63.

10.16 It also appears that in arriving at the amount of surplus anticipated from the public enterprises, the latter are not consulted. The Committee on Public Undertakings has made the following observations† in this regard:

'The Committee regret the manner in which the assessment of the surpluses from the Public Undertakings has been made for the Third Five Year Plan. *Ad hoc* assessment of surpluses is unfortunate as it raises hopes which cannot be fulfilled and exposes the Undertakings to public criticism. The Committee trust that while making provision in the Fourth and subsequent Plans the estimates of surpluses from Public Undertakings would be made on a realistic basis and in consultation with them.'

We are in full agreement with the observations of the Committee. We must also point out that the establishment of multi-unit corporations will make it easier for realistic estimates to be made in consultation with the undertakings themselves.

Statement on Financial and Economic Obligations of Public Enterprises

10.17 We feel that the existing situation calls for a clear statement on the financial and economic obligations of the public enterprises. Such a statement should lay down the broad principles that would enable these obligations to be interpreted in terms of precise financial objectives, and should be formulated in consultation with the enterprises. The absence of such a financial framework is not conducive to proper planning in the public sector undertakings and leads to a degree of vagueness in working out the physical and financial targets to be achieved. In this connection, we have considered the principles‡‡ that the Government of the United Kingdom has laid down for defining the financial and economic obligations of the nationalized industries. We feel that Government of India should take similar action and lay down the basis on which the financial objectives of public enterprises could be determined, individually or industry-wise.

10.18 It is now eleven years since the last Industrial Policy Resolution was formulated and during this period undertakings have

†Para 123 of the 11th Report of the Committee on Public Undertakings on Rourkela Steel Plant of Hindustan Steel Limited—May, 1965.

‡‡The Financial and Economic Obligations of the Nationalized Industries, Apr, 1961 Cmd. 1337.

been set up in all the areas reserved or designated for public enterprises in Schedule A to the Resolution. Considerable experience has now been gained of their financial performance and the results that can reasonably be expected from them in the foreseeable future. We feel that the time has now come for a more specific and clear statement in which Government lays down the principles that should guide the creation of various reserves, the extent to which enterprises should undertake the responsibilities of self-financing, the anticipated returns on the capital employed, and the basis for working out rational wage structures and pricing policies. We also recommend that there should be regular consultation between the Government and the public enterprises to review the extent to which undertakings can expect additional finance for their capital requirements and the amount of surpluses that can be expected from the undertakings.

Returns accruing to Government on Capital Investment

10.19 On capital investment, returns accrue to Government either in the shape of interest on long-term loans or dividend declared on share capital. Of the total investment of Rs. 2,415 crores (as on 31st March 1966) on the undertakings of the Central Government, long-term loans accounted for Rs. 1,047 crores (of this over Rs. 950 crores were advanced by the Central Government). The returns on long-term loans is based on rates of interest that have been fixed for loans with different periods of recovery. Following the increase of the bank rate, the rates of interest have recently been increased by 1 per cent for each class of loan. The new rates that have come into effect from 1st May, 1965, are as follows:

| Period of Loan | Rate of interest |
|-----------------------|------------------|
| 2—4 years | 6% |
| 5—9 years | 6½% |
| 10—15 years | 7% |

During 1965-66, the total amount of interest accruing on capital loans advanced to the Central Government enterprises amounted to Rs. 41 crores.

10.20 The position relating to the dividend declared on equity capital is more fluid and depends upon the profits of the enterprises. However, the budget of the Central Government contains indications about the profits or dividends expected to accrue to Government

from most of the running concerns. A table indicating the position for 1965-66, compiled from the data contained in the Explanatory Memoranda to the Budgets of the Central Government for the last three years is given in Annexure X.

10.21 It appears from this statement that the anticipated accruals to Government are determined more or less *ad hoc*, and in many cases the anticipations go off the mark. While we recognize the difficulty in accurately estimating the profits of complex industrial and commercial enterprises, we feel that in the case of running concerns which have been in operation for relatively long periods, wide variations between actuals and estimates indicate inadequacies in budgeting.

10.22 We also feel that broad principles should be laid down for determining the division of profits (after depreciation) into retained profits and the dividend to be paid to Government. The extent of retained profits should be determined by the obligations that the enterprise has for self-financing for future expansion. In fact, this is an important item which should be covered by the statement defining the financial and economic obligations of the enterprises in the public sector.

Returns on Capital Investment

10.23 As far as the total return on capital investment is concerned, Annexure XI gives the position with regard to the running concerns (excluding promotional and developmental undertakings) of the Central Government for 1964-65, the latest year for which audited figures are available. In making a general assessment of the adequacy of profits yielded by the public enterprises, it is necessary to bear in mind the areas where substantial investment has taken place. In the case of the undertakings of the Central Government, the investment pattern industry-wise, at the end of 1964-65 and the Third Plan period, was as follows:

(Rs. in crores)

| Category | 1964-65 | 1965-66 |
|---|-------------|-------------|
| Steel | 890 | 981 |
| Engineering | 355 | 490 |
| Petroleum | 241 | 295 |
| Chemicals | 198 | 220 |
| Mining and Mineral | 158 | 181 |
| Aviation and Shipping (including ship-building) | 111 | 131 |
| Financial institutions | 6 | 7 |
| Miscellaneous | 78 | 110 |
| TOTAL | 2037 | 2415 |

It is apparent from the above that a very substantial amount of the capital invested in the Central Government enterprises relates to heavy industrial plants having long gestation periods. Some of these industries have been set up in the country for the first time. Neither the trained manpower nor the technical know-how necessary for these industries was available when the pioneering projects were launched.

10.24 These distinctive features of the public sector in our country should be borne in mind while comparing the profitability of public enterprises with that of private concerns. Nor can we ignore the fact that many of the giant concerns like Hindustan Steel, Fertilizer Corporation of India, Indian Oil Corporation, Hindustan Aeronautics, which account for a substantial portion of the total capital investment are still in the process of expansion, and many of their projects are yet to reach the stage of full production. Moreover, the prices of commodities like steel, oil, coal and fertilisers which account for over three-fourths of the total turnover of the industrial enterprises of the Central Government are regulated or fixed by the Government. Since most of these goods are what can be described as essential commodities, the Government is keen to give full protection to the interests of consumers. The result is that the prices fixed are often on the low side and do not make sufficient allowance for the increased capital costs of setting up new plants in these sectors. These factors which bring down the average figures of performance are often overlooked while evaluating the performance of the public sector in terms of profitability. The Reserve Bank Surveys of selected joint-stock companies in the private sector show that gross profits as a percentage of the total capital employed vary on an average from a little over 10 to 10.5; in 1964-65, it was 10.3*. The position with regard to the running concerns of the Central Government for the year 1965-66 is given at Annexure XII. It will be seen from this that several of the industrial and commercial enterprises which have reached or are near the stage of full production have yielded gross profits of over 10.3 per cent on the total capital employed.

10.25 However, it cannot be gainsaid that there is considerable scope for increasing the profitability of many public enterprises by reducing both the capital costs of projects as well as the running

*R.B.I. Bulletin, November, 1966.

costs of operations. We have indicated in the earlier chapters of this report, particularly in the sixth and the seventh chapters, the principal deficiencies in the planning and construction of projects and the steps that can be taken to improve performance and reduce capital costs.

Over-capitalisation

10.26 It is often stated that many of the industrial projects set up in the public sector are over-capitalised. The Parliamentary Committees have often commented on this over-capitalisation and the unfavourable input-output ratio obtaining in many projects e.g. of the Heavy Engineering Corporation*, and the Surgical Instruments Unit (Madras) of the IDPL.† In the course of our study, we have found that many undertakings, like the Hindustan Aeronautics (Koraput unit), Heavy Electricals (Bhopal), Heavy Engineering Corporation, Fertilizer Corporation (Trombay Project), IDPL (Surgical Instruments), etc agree that their projects are over-capitalised.

10.27 The causes leading to over-capitalisation can be traced to inadequate planning, delays and avoidable expenditure during construction, surplus machine capacity, tied aid resulting in the compulsion to purchase imported equipment on a non-competitive basis, expensive turn-key contracts, bad location of projects and the provision of housing and other amenities on a liberal scale. In the preceding chapters, we have made a number of suggestions which, in our view, can help to bring about improvements in the above areas. We would like to take up here the expenditure on township and ancillary facilities and the effect that they have had on the increase of capital costs.

Townships and Over-capitalisation

10.23 The total capital outlay on townships of public undertakings is now in the neighbourhood of Rs. 300 crores, constituting over 10 per cent of the corresponding total investment on the projects. Hindustan Steel alone has an estimated outlay of Rs. 78 crores for its townships. A sizeable portion of capital expenditure is accounted for by townships in many undertakings e.g. the

*Para. 141 of the 51st Report of the Estimates Committee on Heavy Engineering Corporation—March, 1964.

†Para 129 of the 22nd Report of the Committee on Public Undertakings on Indian Drugs and Pharmaceuticals Ltd—March, 1966.

Heavy Electricals (Bhopal), Mining & Allied Machinery Corporation, Hindustan Aeronautics, Hindustan Antibiotics, Instrumentation Ltd and Hindustan Cables. In their Report (May, 1965) on Townships and Factory Buildings of Public Undertakings, the Committee on Public Undertakings has considered this question in great detail and made several concrete recommendations to bring down the capital investment on townships. We agree with the Committee that there is considerable scope for reducing expenditure on townships by adopting uniform and more economical standards, and urge the early implementation of the recommendations of the Committee on Public Undertakings.

10.29 Despite these economies, however, most public undertakings, particularly those which are located in out-of-the-way areas, will have to incur substantial expenditure on providing housing and other facilities to their staff and workers. In our view, this financial burden on the public enterprises should be kept in mind while evaluating their performance.

Subsidized Housing Scheme

10.30 It will be appropriate to refer here to the Subsidized Housing Scheme under which the Central Government provide financial assistance to the State Governments and through them, to certain agencies like Housing Boards, employers etc for the construction of houses for industrial workers drawing salaries below a certain level. Under the Scheme, financial assistance is provided to the extent of 75 per cent (25 per cent as outright subsidy and 50 per cent as loan) of the cost of houses. The Committee on Public Undertakings (in their 8th Report*) has pointed out that only 8 public undertakings had availed of the assistance under the Scheme. The total assistance they obtained was only Rs. 82.6 lakhs, while the total disbursement under the Scheme amounted to Rs. 45.79 crores upto the end of 1962-63. The Committee has also cited cases where large concerns in the private sector had obtained substantial subsidies under the Scheme.

10.31 We feel that it is not necessary for the Central Government to route funds for subsidizing housing schemes for their industrial workers through the State Governments. The very introduction of the Scheme shows that Government agree, in principle,.

*Para 22 of the 8th Report of the Committee on Public Undertakings on Townships and Factory Buildings of Public Undertakings—May, 1965.

to subsidize upto 25 per cent of the cost of houses for industrial workers; drawing salaries below a certain level. Considering the fact that the capital for construction of townships is, in any case, provided by the Government, we feel that the provision of the subsidy can be made at the very start without involving a further application by the public undertakings to the Governments of the States in which their plants are located. We feel that while approving the part of the project report relating to the construction of houses for industrial workers, Government should determine the subsidy that is admissible in accordance with the conditions prescribed in the Subsidized Housing Scheme and treat that amount as subsidy, and not as capital investment made by the Government.

Debts

10.32 The information that we have received from the public undertakings regarding the debts owed to them indicate that in many cases large sums are outstanding from Government departments or other undertakings in the public sector. In fact, the main debtors of public undertakings are Government departments or other public undertakings. The position with regard to some of them as on 31st March 1966 was as follows :

(Rs. in crores)

| Name of Undertaking | |
|---|-------|
| Hindustan Steel | 13.58 |
| Heavy Electricals (Bhopal) | 11.34 |
| Air India | 6.13 |
| Oil and Natural Gas Commission | 3.70 |
| Bharat Electronics | 2.57 |
| Indian Telephone Industries | 2.55 |
| Fertilizer Corporation of India | 2.17 |
| Hindustan Machine Tools | 2.13 |
| Bharat Earth Movers | 1.19 |
| Hindustan Antibiotics | 1.10 |
| Mazagon Docks | 1.06 |
| State Trading Corporation | 11.23 |
| Minerals and Metals Trading Corporation | 8.27 |

10.33 We feel that the administrative Ministries can play a more effective role in ensuring more expeditious settlement of the bills of their public undertakings by Government departments. In many cases the amounts remain outstanding because of

a dispute over the price of the product. We have considered this question in the next section of this chapter on Pricing.

2. Pricing

10.34 The pricing policy in respect of any public enterprise is dependent upon its productive function i.e., whether it is a public utility, an industry producing basic goods or essential commodities, an enterprise set up to regulate trade or stabilise prices, or an enterprise engaged in promotional and developmental activities. The market situation in which an enterprise operates, provides the framework for the determination of the prices of its products or services. The market situations, in the main, vary from monopoly conditions to competitive markets. In between there are markets with near-monopoly situations characterised by a small number of sellers and markets having a limited number of buyers or only one buyer. These different considerations and market situations have to be kept in view while examining the appropriateness of the pricing policies of public enterprises. A uniform set of principles cannot therefore be applied to all classes of public enterprises.

10.35 A system of price determination should serve three principal objectives: it should promote a rational allocation of scarce resources, lead to optimal utilization of inputs and accelerate the growth of the economy. Under competitive conditions, the prices which the market can bear provide, more or less, an automatic indication that the price policy is consistent with these objectives. Profits earned by an enterprise in such a situation tend to show the marginal productivity of the capital invested in it, thereby providing guidelines for future investments. The task of determining an appropriate pricing policy for undertakings operating under monopoly conditions, or having limited competition is, however, much more complicated.

Existing Position

10.36 The autonomy that public enterprises enjoy today in the fixation of prices varies as between undertakings. The selling price and distribution of products like fertilizers, drugs, coal and petroleum products, are controlled or regulated by the Government. In the case of steel, the price has been decontrolled since 1st May, 1967, but is still subject to determination by the Joint Plant Committee. In the case of fares and freight charges levied by the IAC, Mogul Line, etc., the rates are subject to Government approval. In the

case of the Hindustan Shipyard, the purchasers are charged prices on the basis of the prevailing international prices, and the excess of the cost of construction of ship over its actual sale price is reimbursed by the Government to the Shipyard as subsidy. This subsidy is repayable if and when the undertaking earns a profit of over 4½ per cent on the paid-up capital. Undertakings with foreign competitors like the Air India, Shipping Corporation of India, Indian Rare Earths etc, have to go by the international market situation; in the case of the first two, the fares etc, are fixed by mutual agreement among the international lines with the concurrence of the Government. In case of others, the general position is that the undertaking is free to price its products. Usually these prices are fixed on a cost plus basis or on the landed cost formula. But here too, there is a degree of informal consultation with the Government.

10.37 The interest of the Government in the pricing policies of the public enterprises arises from the fact that many of them are key industries and are engaged in the production of goods or the provision of services which are basic to the life of the community, and some of them have a monopolistic element. The fact, however, remains that the automatic discipline exercised by the market gets weakened or disappears as soon as a system of administered prices is brought in. If the prices of the products of a public enterprise are kept artificially low it might lead to a less careful and less economical utilization of its products; while on the other hand, the absence of price regulation in respect of monopolies might enable the undertaking to show profits without necessarily being efficient in its operations.

10.38 On examination of the information furnished to us by the public enterprises in this respect, we find that all enterprises, with the exception of those working under a system of administered prices, have formulated their price policy with a view to covering costs and making a surplus on the basis of whatever assumptions they had of their financial obligations. The pricing structures are bound to contain an element of arbitrariness as these obligations have not been indicated to the public undertakings in precise terms. Even for the Fourth Plan, the draft outline has given only a general indication that public enterprises should aim a rate of return on the capital employed 'of not less than 11 to 12 per cent.' Such a directive does not make it clear to managements whether each of them has to aim at this return or this is supposed to be an indication of the average performance expected from all the public enterprises.

taken together. It will not be a healthy development if public enterprises working under monopoly or near-monopoly conditions attempt to increase surpluses more by increasing prices, and less by reducing costs and ensuring fuller utilization of their capacity. The managements of such undertakings, as have a monopolistic element and are free to price their products should not attempt to bring in larger surpluses by increasing their prices without reference to their own production efficiency and the unwholesome trends that such an increase in prices might generate.

Surplus and Self-financing

10.39 It is, perhaps, no longer seriously argued that public enterprises should function on a no-profit-no-loss basis. In fact, Government now look upon the public enterprises as the creators of new wealth and expect them to yield resources for financing the Five Year Plans. The increasing obligations of the public enterprises in mobilising additional Plan resources have been increasingly recognised in the Third Plan and in the draft outline of the Fourth Plan. The draft outline indicates the likely surpluses expected from public enterprises after allowing for their working expenses, normal replacements, interests on loans, taxes and dividends. The provision of depreciation which, in a way, is not an amount available for self-financing is, however, included under 'surpluses'. If the provision for depreciation is taken away, the position for the Third Plan period would be that, out of the total surpluses of Rs. 287 crores generated by the Central Government undertakings, the amount retained as profit for self-financing was only about Rs. 69 crores.

10.40 As regards the utilization of internal resources for the creation of capital assets, the data in respect of 15 running concerns, for which information is available, indicate the following cumulative position up to the end of the Third Plan period:

(Rs. in crores)

| Name of Enterprise | Gross Block (incl. works in progress) | Investment | Internal Resources utilised |
|---|---|------------|-----------------------------------|
| 1. Fertilizer Corporation of India | 152.1 | 104.0 | 48.1 |
| 2. Shipping Corporation of India | 52.2 | 40.3 | 11.9 |
| 3. Hindustan Machine Tools | 30.2 | 23.9 | 6.3 |
| 4. Hindustan Antibiotics | 6.6 | 2.5 | 4.1 |
| 5. Fertilizers and Chemicals Travancore | 21.8 | 18.4 | 3.4 |

| | | | |
|--|-------|-------|------|
| 6. National Projects Construction Corpn. | 7.6 | 4.6 | 3.0 |
| 7. Mogul Line | 3.8 | 1.6 | 2.2 |
| 8. National Newsprint and Paper Mills . | 7.4 | 5.3 | 2.1 |
| 9. Hindustan Steel Works Construction . | 0.71 | .05 | 0.66 |
| 10. Ashoka Hotels | 2.8 | 1.8 | 1.0 |
| 11. Hindustan Insecticides | 1.8 | 1.3 | 0.5 |
| *12. Hindustan Cables | 4.6 | 3.9 | 0.7 |
| *13. Indian Telephone Industries . | 6.9 | 6.6 | 0.3 |
| *14. Indian Rare Earths | 1.2 | 1.0 | 0.2 |
| *15. Praga Tools | 2.5 | 2.4 | 0.1 |
| TOTAL | 302.2 | 217.6 | 84.6 |

*Figures for the last 4 enterprises relate to 1964-65.

It is apparent from this statement that, of the Rs. 302 crores utilized in creation of capital assets of the fifteen enterprises referred to above, Rs. 84.6 crores, i.e., roughly 28 per cent were accounted for by internal resources, and the rest by investment. However, the general position in respect of all the public enterprises is less favourable. The highly capital intensive nature and long gestation periods of plants set up in the public sector and the rate at which the public sector has been expanding are some of the reasons for this situation.

10.41 We feel that self-financing for expansion should be taken as a specific obligation of our public enterprises operating in the industrial and manufacturing field. In fact, there are strong grounds to hold that public enterprises should provide additional resources to the State in a developing country where the rate of re-investment in development programmes by the Government is higher than that by individuals. We also feel that in a planned economy profits earned by the public enterprises should be re-invested in a socially valuable way. But it may not be possible to expect all public enterprises to make profits. There might be instances where larger social considerations require a public enterprise to deliberately forgo earning of profits, e.g., an enterprise engaged in the manufacture of essential drugs, or having to operate a commercially unprofitable service either as a promotional activity or for avoiding undue inconvenience to a section of the community. Even in such cases the

minimum to be aimed at should ordinarily be that the enterprise is able to pay its own way, that is, break even after providing for depreciation charges calculated on a realistic basis. If an undertaking cannot or does not reach this minimum, a very detailed scrutiny should be undertaken to assess the justification for maintaining such a manifestly uneconomic concern on grounds of public interest.

10.42 We recommend that the following principles should be kept in view while formulating the pricing policies of units in the public sector:

- (i) At the very minimum, public enterprises should pay their way and not run into losses unless there are clear and overriding reasons of public interest which have been indicated to the enterprise in an open directive issued by the Government;
- (ii) in the case of public utilities and services, greater stress should be laid on output than on return on investment, the former being extended upto a level at which marginal cost is equal to price;
- (iii) While determining the price structure commensurate with the surpluses expected from them, public enterprises should keep the level of output as near the rated capacity as possible subject, of course, to the volume of demand for the product; and
- (iv) public enterprises in the industrial and manufacturing field should aim at earning sufficient surpluses to make a substantial contribution to capital development out of their own earnings.

Pricing and Performance

10.43 The financial performance of any enterprise depends upon the level of costs as well as the level of prices; and, therefore, also on the autonomy that a public enterprise enjoys in the formulation of its pricing policy. It is obvious that if the selling prices of the products of an enterprise are fixed while the prices of inputs keep increasing, the financial results of the enterprise cannot be expected to match the prescribed standards or to adequately reflect the cost reductions and greater efficiency that might be brought about by the management. Some undertakings like the Hindustan Steel and the Fertilizer Corporation of India have drawn our attention to this-

problem. It is only reasonable that if Government require a public undertaking to keep prices at an artificially low level the financial obligations of that undertaking should be revised. Further, it should be recognized that taking up a commercially unprofitable activity also affects the level of costs, and if an undertaking has to pursue such an unprofitable course of action under the directions of the Government, then the Government should either subsidize the public enterprise (as is being done in the case of Hindustan Shipyard and certain services operated by the IAC) or the enterprise should be entitled to ask for a downward revision of its financial obligations.

Pricing and Cost Control

10.44 In a competitive market, the price mechanism serves as an effective instrument for cost control. But the price mechanism does not perform this function in a monopolistic enterprise or in an enterprise which fixes prices on the basis of cost plus formula. The cost plus formula has been generally adopted in the case of undertakings whose products are purchased solely or mainly by Government, e.g., the undertakings of the Ministry of Defence, Indian Telephone Industries (ITI), etc, and in a way, partly by Hindustan Shipyard. The ITI has, however, entered into a Fixed Price Contract with selling prices as on 1st April, 1965, as the base and an escalation clause to adjust increases in costs relative to the base year. It is sometimes argued that the cost plus formula impairs the keenness of the management to reduce prices and might even lead to a situation in which an undertaking finds that it can earn larger profits if its costs are higher.

10.45 As an improvement on the cost plus formula, the system of using the landed cost of similar products as a norm for fixing fair prices has been adopted in respect of undertakings like the Heavy Electricals, Hindustan Machine Tools, Heavy Engineering Corporation, etc. It is asserted that the landed cost formula has the advantage that it introduces a competitive element in the pricing of public enterprises operating under monopoly conditions and that it should be applied in respect of all such undertakings. But the landed cost includes many elements and cannot, therefore, be regarded as a norm for the comparison of prices. We would, therefore, recommend that the c.i.f. price plus the countervailing duty, if any, should be regarded as the standard of comparison. But in cases where the imported goods have the benefit of export subsidies in the countries of origin,

the c.i.f. price should be proportionately weighted. Prices determined on this basis will also give an indication of the soundness or otherwise of the investment made in the project. We feel that although there is a certain advantage in adopting the formula, it does not lend itself to general application as such. For instance, the Hindustan Machine Tools are in a position to sell their products at a price substantially lower than the c.i.f. price of similar items while the Heavy Electricals, Heavy Engineering Corporation, Mining and Allied Machinery Corporation etc, are not in such a position. To a certain extent, these variations may be the result of over-capitalisation in one project as compared to another, but generally they are due to the different circumstances in which the undertakings find themselves. In adopting the formula related to the c.i.f. prices in respect of undertakings having a monopolistic element, it will be necessary, therefore, to make allowances for varying circumstances and fix certain permissible deviations from the norm arrived at on the basis of the c.i.f. value of similar items after adjustment for countervailing duty and export subsidy, if any, available to such items in the countries of origin.

10.46 We recommend that wherever public undertakings are operating under non-competitive conditions and where the number of buyers of the products is limited, the price levels should be determined on the basis of the c.i.f. value of similar items in preference to the cost plus formula. We recognize that the ability to produce goods at costs matching the c.i.f. price of similar goods will differ from undertaking to undertaking. We would recommend a detailed examination of the cost structure of the products of the public undertakings concerned to determine the levels of permissible deviations. For this purpose, Government can utilize the machinery of the Tariff Commission or the Cost Accounts Organization of the Ministry of Finance.

Inter-Undertaking Disputes

10.47 Some of the industrial public undertakings, engaged in the production of basic goods and services, find that their products form the input or the capital equipment of other public undertakings. In certain cases, they have a monopolistic element while in others the buyers are limited or consist of only one undertaking, a class of undertakings, or a department of Government. This creates problems in the determination of the fair prices that should be charged by one public undertaking from another or from the

consumer department. A significant illustration is provided by the current dispute between the National Mineral Development Corporation (NMDC) and the Minerals & Metals Trading Corporation (MMTC) on the pricing of ore. Problems have already arisen regarding the pricing of the heavy electrical equipment manufactured by the Heavy Electricals for the various State Electricity Boards and Government departments. These problems are likely to increase when more heavy electrical plants and the heavy engineering and mining machinery projects reach the stage of production.

Central Price Commission

10.48 It is in this context that a suggestion has been made for setting up a permanent commission, a kind of Central Price Commission, that can help the Government in resolving inter-undertaking disputes over prices. At present, it is only by following laborious and time-consuming procedures through the different Ministries that these disputes can be settled. For instance, the dispute between NMDC and the MMTC, has not been settled, even after inter-ministerial discussions, that have gone on for over two and a half years.

10.49 While it is true that the existing arrangements for solving inter-undertaking disputes have to be improved and streamlined, it will be necessary to consider the possible disadvantages in setting up a Central Price Commission for the public sector as a whole. In offering us their views on this point, most of the public undertakings have not supported the proposal to set up a permanent commission for pricing on the ground that it might further erode their autonomy in an area which is vital to any industrial or commercial undertaking. It has been argued that such a Commission is likely to ask for copious information and data before according approval to the price structures proposed by the managements in the public sector and might, thus, turn out to be a bottleneck in carrying out necessary and timely revisions in existing prices.

10.50 The need for a Price Commission can be ruled out straightaway for public undertakings which are operating in fairly competitive market situations. We have, therefore, considered the proposal only in respect of undertakings which have a virtual

monopoly or sheltered markets, and areas where cases of inter-undertaking disputes are likely to occur. Even for these undertakings, it will not be advisable, in our view, to set up a statutory body for settling disputes mainly because of the lengthy procedures and the delay that the procedures of such a body will entail. We feel that a more practical solution lies in streamlining the existing *ad hoc* processes through which disputes are being resolved. We recommend that high-powered standing committees consisting of the representatives of the public undertakings and the concerned administrative Ministries should be designated and standard procedures laid down for cutting out delays in deciding matters under dispute. We feel that it would be helpful if the Chief Economic Adviser or his nominee is also included in this committee so that he might be able to provide objective, expert advice to the committee.

10.51 These arrangements will, perhaps, be sufficient as far as the disputes between agencies or undertakings of the same Government are concerned. But where the agencies involved are under different Governments it might not always be possible to settle disputes without decisions from a statutory body. This eventuality is very likely to arise in the case of equipment manufactured by the heavy electricals plants. These plants are Central Government undertakings and the various Electricity Boards which buy the equipment are under the State Governments. We recommend that in such cases, the agency and expertise of the Tariff Commission may be utilized or a special administrative tribunal set up, with the statutory authority necessary to ensure that its decisions are binding on the undertakings concerned.

CHAPTER XI

AUDIT

11.1 The system of audit of the accounts of a public enterprise depends upon its legal form. The receipts and expenditure of a departmental undertaking form part of the Consolidated Fund, and are, therefore, audited by the Comptroller & Auditor-General (C&AG) just like those of any other department of the Government. In the case of statutory corporations the position varies widely: the accounts of the Life Insurance Corporation and the Food Corporation of India are audited only by the professional auditors (private firms of chartered accountants), although in the case of the Food Corporation, the professional auditors are appointed by the Central Government on the advice of the C&AG. In the case of the warehousing corporations, the audit is done by professional auditors appointed on the advice of the C&AG who also has the right to undertake such audit as he may consider necessary either of his own motion or on a request from the appropriate Government. As for the Air India, IAC, and the ONGC, the C&AG is the sole auditor.

11.2 Under the provisions of the Companies Act 1956, the accounts of Government companies are audited primarily by professional auditors appointed by the Central Government on the advice of the C&AG. The C&AG has the power to direct the manner in which the company's accounts are to be audited and to give instructions to the professional auditors on the performance of their functions. The C&AG also has the power to conduct a supplementary or test audit of the company's accounts and comment upon, or supplement, the audit report of the professional auditors. Any supplementary reports or comments that the C&AG makes are also placed before the Annual General Meeting of the company along with the report of the professional auditors. Government companies are thus subject to multiple audit, the audit of the professional auditors as well as that of the C&AG.

11.3 In the ninth chapter of our Report, we have referred to the role of internal audit and indicated that its objectives are distinct from those of external audit. When internal audit is assigned its proper role, it will cease to be a factor contributing to the multiplicity of audit arrangements. In fact, an efficient internal audit organization will tend to reduce the quantum of external audit that needs to

be conducted. We have already underlined the need for a clear definition of the role of internal audit and for strengthening the internal audit organizations in the public enterprises.

11.4 Another Study Team constituted by the Commission, namely, the one on 'Reforms in Accounts and Role of Audit' is also examining the kinds of audit to which public enterprises are being subjected today. We too have considered this question in some detail since we felt that the existing manner in which audit is being conducted and the multiplicity of audit arrangements are having an unwholesome effect on the performance of public enterprises. During our discussions with the chief executives and financial advisers of public enterprises, we found that dissatisfaction with the present position was almost universal. There was a good deal of forceful criticism in the evidence that we received. The salient points that emerged from this criticism are recounted below:

- (i) The existing multiplicity of external audit leads to considerable waste of time and effort for the management since it has to reply to the detailed questions and objections raised in successive examinations by the professional auditors and the Government auditors.
- (ii) Government auditors, particularly the lower staff, do not have sufficient appreciation of the commercial nature of the public enterprises and often raise questions and objections of a nature that may have some value in the case of the administrative Ministries, but appear trivial and inconsequential in the case of commercial undertakings.
- (iii) In fact, undue importance is attached to the audit function as a whole and to the observations made by the auditors after the event with the advantage of hind-sight.
- (iv) Too detailed and continuous an audit dampens the initiative of enterprising managers forcing them to adopt a more cautious approach and restricting the scope of delegation of powers.
- (v) At present the auditors do not have the necessary expertise or experience to undertake an adequate and systematic appraisal of managerial efficiency.

11.5 It has been stated that the functions performed by the professional auditors and the Government auditors are different: the former performing what is variously termed as 'regularity audit' or 'mere

financial audit' and the latter what may be described as 'efficiency-cum-proprietty audit'. It must be pointed out that the C&AG is altogether out of the picture in the case of some of the statutory corporations e.g., the LIC and the Food Corporation of India, while he is charged with the responsibility for both 'regularity' and 'efficiency-cum-proprietty' audits in the case of statutory corporations like the ONGC, Air India and the IAC. We have gone into the manner in which audit is now being conducted by the different agencies to determine how best the existing multiplicity of audit in the case of the Government companies can be reduced and how the whole approach to audit can be reoriented to bring it in line with the special requirements of the public enterprises.

Audit of the C&AG

11.6 At present, the C&AG is the sole auditor for 3 corporations (IAC, Air-India and ONGC). In addition, the C&AG is charged with the responsibility for conducting test and supplementary audits and supervising professional audit of the accounts of about 65 companies (with 2 subsidiaries) of the Central Government itself. Based on the results of audit of the professional auditors as well as such supplementary and test audit as the C&AG is able to do, an Audit Report (Commercial) is presented to Parliament each year. This report contains a general review of the working of the Government companies followed by a more comprehensive review of the working of some of the companies. Remarks relating to the statutory corporations and some of the departmental undertakings are also included in this report. The C&AG himself has observed that it is not possible for him to make a comprehensive review of all the companies each year. In fact, the planned attempt now is to cover each of the undertakings at least once in 5 years. In addition, there are about 145 Government companies of the various State Governments for which too the C&AG shoulders similar responsibilities. This work is, however, generally discharged through the State Accountants General.

11.7 In 1955, the C&AG set up a special organization called the Directorate of Commercial Audit to take care of the work relating to the industrial and commercial enterprises of the Government, including departmental undertakings, Government companies and the statutory corporations for which the C&AG had responsibility. Five regional offices were also set up each under a chief auditor, and in the areas not covered by such offices, the Accountants General in the States were specifically entrusted with the work of commercial audit as well. An attempt has also been made to recruit suitably

qualified and trained staff for the purposes of commercial audit. For instance, of the 114 Assistant Audit Officers in the Directorate, 2 are qualified as cost and chartered accountants, 10 are chartered accountants and 17 are cost accountants. There are also 11 cost accountants among the 330 or so accountants of the Subordinate Accounts Service (SAS).

11.8 Although a special organization with regional offices has been set up to take care of the work relating to the commercial audit of the public enterprises, it has not been possible for the Government auditors to review their working adequately. From the Annual Reports (1964-65) of the Government companies we find that the C&AG could give comments only in about half the cases, and that too on minor matters. An analysis of the Audit Reports (Commercial) of the years 1965 and 1966 indicates that only 11 companies out of about 56 could be taken up for individual review in the 1965 Report, and in 1966, when the Hindustan Steel Ltd., was taken up for individual review, only 2 other companies could be covered. The general review in the beginning of the report, though brief, does give an overall picture of the performance in the public sector regarding the following items :

- (i) Return on investment—(this gives brief details of paid-up capital, profits and dividends, loans, interest, guarantees and subsidy) ;
- (ii) rate of growth ;
- (iii) sources and uses of funds—(from internal as well as external sources) ;
- (iv) value of production and profits;
- (v) inventories ; and
- (vi) sundry debtors.

The classification adopted in the general review divides the undertakings under three broad heads *viz*, (i) running concerns; (ii) promotional and developmental undertakings ; and (iii) companies under construction. This extremely broad classification lumps together undertakings with widely different objects and obligations. We suggest that a more appropriate method would be to classify the running concerns industry-wise. This would enable the report to

present to Parliament a clearer and more intelligible review of the performance of these undertakings.

11.9 Of the undertakings taken up for individual review in the Audit Report (Commercial) of 1966, the review in the case of Hindustan Steel Limited appears to be fairly comprehensive. It covers most of the important aspects of operation in each of the six units of the company. This shows that much useful information about the working of public undertakings can be given to Parliament by the C&AG provided he is able to undertake a comprehensive review for the purpose.

Professional Audit

11.10 Except for the LIC, it is on the advice of the C&AG that the professional auditors are appointed by the Government. The audit undertaken by the professional auditors in the case of Government companies is essentially similar to that performed by them in the case of joint-stock companies. In actual practice, the professional audit parties, in addition to verifying the correctness of the accounts, also help the companies to compile their Balance-Sheets and Annual Accounts in accordance with the legal requirements. The C&AG in exercise of powers vested in him under Section 619(3) (a) of the Companies Act has assigned additional duties to the professional auditors appointed to audit the accounts of Government companies. The latest directive issued by the C&AG in December 1965 requires the professional auditors to answer certain specific questions regarding the system of accounts and book-keeping, internal control, manufacturing and production accounts, profit and loss account, and the different elements covered in the balance-sheet. It also requires the professional auditors to give other significant information indicating the financial status of the company as well as the general analysis of the accounts indicating capital formation, growth of the company, and sources and uses of funds. The important points brought out in the reports of the professional auditors are included by the C&AG in a separate chapter in the Audit Report (Commercial). An analysis of this chapter indicates that these points mainly relate to organizational and procedural shortcomings like the absence or inadequacy of internal audit systems, manuals of procedures, stores accounts, etc and significant variations between budget estimates and actuals.

11.11 We have discussed this question at length with senior officers of the C&AG as well as the chief executives and financial

advisers of several important public undertakings. While there is general agreement that the existing multiplicity of audit and the duplication of effort that it causes should be eliminated, views differ widely on the manner in which this should be brought about. A view put forth mostly by the chief executives and general managers, suggests that Government companies should be treated as joint-stock companies and their accounts should not be subject to audit by the C&AG. It is argued by some that even under the existing provisions of the Companies Act, the C&AG has the right to give directives to the professional auditors and that it should, therefore, be possible for the C&AG to have the entire work done through the professional auditors. They argue that this can be done by the C&AG revising and amplifying his directives to cover whatever area he deems it necessary to cover. On the other hand, the C&AG and his senior officers are of the view that the private firms of chartered accountants are not yet equipped with the requisite expertise or experience to undertake what may be described as efficiency-cum-propriety audit. On this basis, it is sometimes argued, especially by some of the financial advisers of the public undertakings, that the entire audit of public enterprises should be entrusted to the C&AG as his sole responsibility. They take the view that since Government companies are financed wholly or mainly from public funds it is essential that their accounts were subject to efficiency-cum-propriety audit by an agency acceptable to Parliament.

11.12 We have considered the position that prevails in other countries. In the United Kingdom where public enterprises have been set up as statutory corporations, the responsibility for conducting audit has not been entrusted to the Comptroller and Auditor-General. On the other hand, Government corporations in the United States and Australia are subject to Government audit. In Canada, most of the Government undertakings are subject to Government audit, but in a few cases private firms of chartered accountants are entrusted with this work. In France, a special body has been set up by statute to verify the accounts and appraise the performance of public enterprises. In Italy, the two public corporations, ENI and IRI, have a Board of Auditors having officers from the Government Audit Organization and the Ministries concerned. There does not seem to be any instance in any foreign country where the accounts of a public undertaking are subject to audit both by Government auditors as well as private professional auditors.

11.13 The alternative measures that can be adopted to reduce the existing multiplicity of audit and the duplication of work that this causes may be summed up as follows :

- (a) Undertakings in the public sector may be excluded from the responsibility of the C&AG;
- (b) the audit by professional auditors may be completely done away with and the whole work entrusted to the C&AG; and
- (c) the existing area of the audit conducted by the C&AG may be reduced to the minimum by strengthening the internal audit system and by increasing the area covered by the professional auditors.

11.14 We feel that it will not be advisable to do away with the C&AG's audit altogether. In addition to considerations of public accountability, the fact remains that the Directorate of Commercial Audit has gained some experience of efficiency-cum-propriety audit. However, entrusting the whole work to the C&AG may not be a feasible solution. The senior officers of the C&AG themselves feel that it will require a tremendous expansion in the Government audit organization and may prove to be a more expensive proposition than the existing set-up. Nor would it be proper to suddenly curtail the business that is at present flowing to the private firms of chartered accountants which have been performing this work for quite some time and which have also come to acquire some experience and expertise in the process. The suggestion that the area of the C&AG's audit may be reduced by increasing the area assigned to professional auditors is a desirable aim, but, in our view, this will not result in a significant reduction in the existing multiplicity and overlapping because the C&AG will always be inclined to test the work done by the professional auditors and it is here that most of the overlapping takes place.

11.15 There is yet another consideration, perhaps even more important than that of reducing avoidable multiplicity. This is the need to revise and re-orient the attitude of Government auditors to conform to the special requirements of public enterprises. It is often argued that Government auditors are not sufficiently aware of the special circumstances and environments in which industrial and commercial enterprises have to function and that they do not distinguish between the procedural needs and operational exigencies of the public enterprises and those of the administrative Minis-

tries. It is pointed out that Government auditors who have the advantage of hindsight and additional information that was not available to the management at the time the decision was taken, seek to criticise individual transactions with great gusto. This dampens the enthusiasm and initiative of enterprising managers and promotes an atmosphere of caution in the management organization. This in turn leads to a situation in which executive authorities feel obliged to postpone decisions till after the necessary documentation has taken place. Those who hold these views go on to argue that it is not possible for the Government auditors to take a broad view and to recognize the fact that the management very often have to take calculated risks some of which are bound to result in losses on individual transactions. They, therefore, suggest that the C&AG's Audit should be altogether eliminated in the case of public enterprises, as has been done in the United Kingdom. They point out that this has not led to dilution of public accountability or diminution of the effectiveness of audit in the UK, and suggest that the audit conducted by professional auditors should be deemed to be sufficient in the case of our public enterprises as well.

11.16 However, we feel that it will not be proper to confine the audit of public enterprises to mere financial audit by the professional auditors. If public accountability is to be effectively discharged it appears necessary that there should be an external agency entrusted with the task of conducting efficiency-*cum*-propriety audit. We have considered various alternatives for eliminating the existing multiplicity of audit arrangements as well as for bringing about the necessary re-orientation in the auditors' attitude, and have come to the conclusion that it is not possible to effect the required degree of improvement without a radical change in the existing system. We have reached the conclusion that with suitable modifications the systems prevailing in France and Italy can be adopted for the audit of our public enterprises.

11.17 In France, a statutory body called the '*Commission de Verification des Comptes*' (Commission of Verification of Accounts) has been set up for work relating to the verification of accounts and the appraisal of performance of public enterprises. The work of the Commission is divided into five sections, each section covering a different area of enterprise, namely, fuel and power, credit and insurance, transport and communication, engineering, chemical and miscellaneous industries. Each section consists of three magistrates

of the *Cour des Comptes* (Audit Court) and two other members appointed by the Minister of Finance and Economic Affairs. The Commission has its own staff for verification work but includes a large number of officers, deputed from the Audit Court. It also utilizes the services of part-time investigators (*rapporteurs*) taken for the purpose from different Ministries. The aim of the verification is not only to check the correctness and proper maintenance of the balance-sheets, inventories etc, but also to bring out the financial position of the undertaking and its future prospects. The Commission also examines the commercial and financial management of the enterprises and suggests improvements including the changes required to be made in the organization and structure of the enterprises.

11.18 The discussions in the sections of the Commission are also attended by a representative each of the administrative Ministry concerned and the Planning Commission. The individual reports containing the findings, observations and suggestions of the Commission are adopted by the sections after hearing the representatives of the enterprises. These reports are confidential documents intended for the Minister of Finance and Economic Affairs, the Minister concerned with the enterprise and the Audit Court. They are, however, placed at the disposal of the Members of Parliament appointed to the various permanent Commissions of the French Parliament concerned with the examination of the working of public enterprises. The Commission also presents a consolidated report on the activities of the concerns, and its findings, to the Parliament and to other high State organs.

11.19 In Italy, the system of audit is not so elaborate as in France. In fact, except for the public corporations at the top, the subsidiary operating companies are no different in this respect from the private joint-stock companies. For the public corporations, like the ENI and IRI, a board of auditors is constituted which includes officers of the Audit Court, the Ministries concerned and the General Accounting Office.

11.20 We feel that there are a number of advantages in adopting the system of audit prevailing in France with certain suitable modifications. We have already referred to the need for bringing about a radical re-orientation in the attitude of the auditors so that their outlook and methods may conform to the special requirements of the commercial and industrial enterprises in the public sector.

We feel that the process of this re-orientation will be definitely accelerated if a Board is entrusted with the efficiency-cum-propriety audit of these enterprises and two eminent outsiders with experience of the working of public enterprises are also nominated to serve as members of this Board. We also feel that while the senior officers of the audit department are sufficiently aware of the need for a different and broader outlook towards the audit of public enterprises, this awareness somehow does not percolate to the lower levels of the audit organization. In our view, this is largely due to the hierarchical structure in which the audit department is at present organized. We believe that the position will improve rapidly if the audit department is reorganized along functional lines, and a Board on the French pattern constituted at the top to provide direction and guidance to lower levels. The work performed by the Commission in France has been regarded as most useful and as the closest approximation to the type of systematic appraisal that should be made of the performance of the managements of public enterprises. We have discussed the problems of appraisal of performance in the next chapter. In the ensuing paragraphs, we have confined our suggestions to the improvements necessary in the system of audit and the way in which the French system of audit can be adapted for the audit of our public enterprises.

11.21 We recommend that the work that is at present being done by the Directorate of Commercial Audit should be divided amongst four or five audit boards, each audit board dealing with a particular major area of enterprise like iron and steel, engineering, chemicals, trade and commerce and transport etc. Each of these audit boards should have five members including three senior audit officers as common permanent members. We suggest that for this purpose an Additional Deputy Comptroller and Auditor-General be designated the common Chairman of these boards; the other two common permanent members should be of the rank of Accountant General. This in effect may require an additional post of Accountant General which we feel will be required in any case with the expansion of the public sector. The two part-time members of each board should be appointed by the Minister responsible for the development of that particular industry. These two members need not be serving officials of the Ministry, but may be selected from amongst very senior persons experienced in the work of public enterprises or from among experts in commercial or financial matters. It would be advantageous if one of the two part-time

members has occupied senior managerial posts in the public enterprises.

11.22 We suggest that the existing departmental set-up of the Directorate of Commercial Audit should be utilized for providing the secretariat and investigating staff to the audit boards. This will not involve any transfer of service or radical reorganization of the department because the administrative control over staff and the responsibility for running the organization can be vested in the three permanent members who will be officers of the C&AG. It will be necessary, however, to provide reorientation and training to the existing staff and to recruit certain specialists and experts like statisticians, economists and cost and chartered accountants. If an organization is to undertake the task of efficiency-cum-propriety audit, it is essential that its staff should at least resemble in expertise and specialization the management organization of the enterprise concerned.

11.23 We suggest that reports relating to individual undertakings should be discussed in the audit board in the presence of the representatives of the Ministry concerned and the public enterprise under examination. These reports should not be treated as confidential but should be presented through the controlling Ministry to the Parliament. It should not be necessary for the audit boards to undertake a comprehensive review of the working of each undertaking every year. In fact, such a comprehensive review which would entail a corresponding amount of examination, would not even be desirable. The audit boards can so phase their programme that they undertake this comprehensive review in respect of each undertaking once every 5—7 years. This periodical review should be a systematic appraisal of managerial performance along the lines described by us in the ensuing chapter. The work of annual verification of accounts and the balance-sheet need not be delayed to coincide with the comprehensive review.

11.24 We also recommend that a large portion of the work, mainly relating to regularity audit, may be got done by the audit boards through the professional auditors. This, in our view, would not be a perpetuation of the existing multiplicity because professional auditors would then be working as agents of the audit boards and will have a clearly defined area of work which need not be tested or re-examined by the permanent staff of the audit boards. We suggest that the work assigned to the professional auditors should

be clearly defined and distinguished from that done by the audit board's own staff. It should be confined to regularity audit as in the case of private joint-stock companies. For each undertaking, or class of undertakings, combined audit parties comprising the staff of the audit boards as well as professional auditors should be formed for carrying out their tasks concurrently and collectively. This will effectively minimize the chances of duplication.

11.25 We are of the view that evolving a system of audit on the above lines will not only reduce the existing tiers of audit but also result in a more broad-minded approach, particularly since the presence of two eminent outsiders with experience will temper and elevate the level of examination. Discussion of the draft audit report in the audit board in the presence of the representatives of the Ministries concerned and the public enterprises will also help to clarify the various issues that come up in the course of audit and to evaluate them in the perspective in which a public enterprise has to function. The system that we have suggested will also enable the investigatory staff to develop specialized expertise and experience along functional lines.

11.26 One question that might be raised about the system that we have proposed is whether it can be introduced without some changes in the existing law. We have studied this question, and find that no such change may be necessary. The provisions that we have suggested can be written into the Acts drawn up for the creation of the proposed multi-unit corporations. As for the enterprises that will continue to retain the company form, or new companies established or taken over by the Government, the proposed audit arrangements are consistent with the existing provisions of the Companies Act. The C&AG in exercise of powers vested in him by sub-section (3)(b) of Section 619 of the Act can authorize the relevant audit boards in this behalf.

11.27 We would also stress the need for a clear definition of the scope of the work that the audit boards are expected to do. While we envisage that the arrangement we have proposed will enable a critical review of the commercial and financial management of the public enterprises, we believe that the audit boards can be really beneficial to the undertakings only when they function more for the constructive purpose of suggesting improvements than for focussing attention on the errors and deficiencies of management.

The audit boards will have to guard themselves against the temptation to prefer their own judgment to that of the management boards, to highlight transactions which only involve a difference of opinion and to make observations which are based purely on fortuitous hindsight. We feel that within this framework an investigation by a body of persons having professional competence in audit work in cooperation with experts from outside will not only indicate the true financial status and prospects of an enterprise but will also inform management of the areas of possible improvement. The audit boards should deem the task of appraisal of managerial performance as far more important than that of the verification of accounts and audit. The difficulties in undertaking such an appraisal in relation to the public enterprises are discussed in the next chapter.

CHAPTER XII

APPRAISAL OF PERFORMANCE

12.1 The task of measuring the performance of the management in the public sector is much more difficult than is the case in the private sector. The test of profitability provides a ready index for private enterprise. But in the public sector, other tests such as the fulfilment of non-financial, social and national objectives prescribed by the Government have to be met by the management in addition to the criterion of profitability. It is, therefore, necessary to work out a proper set of criteria for evaluating managerial performance in the public sector. These criteria have to be consistent with the objectives and obligations of the public enterprise. When such objective tests and criteria are not laid down, it becomes easy for detractors to indulge in ill-informed criticism or make unfounded allegations against public sector. On closer scrutiny, it becomes evident that some of these allegations do not arise from facts but from vested interests. Statements are frequently made about the poor returns on the capital invested in some of the public undertakings without giving due weight to the long period of gestation involved in heavy industry and to the fact that a substantial portion of the capital invested related to projects still under construction. On the other hand, one cannot ignore the fact that many public undertakings function in favourable circumstances created by the degree of monopoly they enjoy. The fact that such an undertaking yields relatively better returns does not necessarily mean that it is being efficiently run. Similarly, it is not appropriate to compare the returns given by capital intensive industries like steel or heavy engineering plants with those from purely trading concerns like the State Trading Corporation.

12.2 It must be pointed out that management is only one of the agents of production while the performance of a public enterprise represents the combined operation of a number of agents. To make a fair assessment of the working of the public enterprise, it is important to draw a clear line of demarcation between the responsibilities of the management and the Government. If this distinction is not made, the concept of managerial efficiency tends to become vague. Government exercise a range of controls over a public enterprise and

the management has to function within the framework of these controls; there is a restriction on the activities of a public undertaking, both in respect of the end-results and the steps that can be taken to realise them. It will thus be only fair to judge the performance of the management in the light of these constraints on its actions. Within the structure of a public enterprise, however, 'management' can be regarded as a composite entity identifiable with the top decision-making level comprising the management board and the chief executive. It is not inappropriate to view managerial authority within the enterprise as flowing from and converging on the management board and its chief executive.

Criteria of Performance

12.3 The criteria for evaluating the performance of any enterprise depend on its objectives and obligations. The principal objective, immediate or ultimate, of a private concern is the maximization of profit. In the case of a public enterprise, the objectives are multiple and cover different aspects of its operations, e.g., earning of surpluses, equitable distribution of its products and services, the generation of non-vendible benefits etc. Viewed from a strictly commercial standpoint, some of these obligations work as constraints on managerial discretion. The criteria for evaluating performance in the public sector have thus to be related to a complex set of objectives. Since these objectives are not common for all enterprises it is not possible to evolve a uniform set of criteria applicable to all undertakings in the public sector.

12.4 It is possible, however, to prescribe a basis for evaluation indicating, in order of priority, the factors on which performance in the public sector can and should be judged. It is necessary to determine the relative priority of different criteria since an evaluation of performance on the basis of one criterion may conflict with that on another. The performance of a public enterprise, in our view, should be evaluated in terms of the success achieved by management in the following spheres and in the order indicated below:

- (a) *furthering of the non-commercial objectives of the enterprise as specified by the Government;*
- (b) *furthering of the commercial objectives of the enterprise and maximization of profits subject to (a) and within the constraints of Government directives;*

- (c) improvement in the quality of products and services; and
- (d) economy and efficiency in the use of resources (men, money and materials).

12.5 To an extent, there is inter-dependence between some of the above criteria. The test of profitability has been put second to that of the fulfilment of non-commercial objectives since public undertakings are expected to be run in the collective interest and their very creation is based on considerations other than mere profit. For instance, it may not be in the collective interest for a public enterprise manufacturing drugs and medicines to go in for profit maximization. The second criterion is nevertheless very important and is in fact the very reason for giving the public enterprise a structure of a commercial nature. Every public enterprise normally has the common objective of providing goods and services of reasonable quality at the least possible cost and make them available to the community at reasonable prices. We have earlier indicated, while discussing pricing policy, that there is a good case for the public enterprises in a developing country to go in for reasonable profit-making. Hence the third and fourth criteria follow the profit criterion. The maintenance and improvement of the quality of products is no doubt an important obligation in the public sector, but the pursuit of this aim has necessarily to be within the confines of market discipline and the willingness of the consumer to pay for quality. Although the criterion of economy and efficiency in the use of resources has been put last, we attach great importance to the management's obligation to make continuous endeavours towards reducing costs in all areas. In fact, this is in a way related to the second criterion since profits will depend on economy in the use of resources. It can also be observed that the reduction of costs in certain fields may come into conflict with some of the non-commercial objectives, e.g., a reduction in costs caused by retrenchment of labour or automation or a reduction achieved at the expense of the quality of product.

Technique of Appraisal

12.6 Appraisal of performance is basically an exercise in comparisons. These comparisons can be made in three possible ways; first, management's performance in different periods can be compared to assess the changes recorded over time; secondly, comparisons can be drawn between the performance of different enterprises over the same period; and lastly, actual performance can be

measured against certain hypothetical standards. In the first two methods, it is, of course, essential that the same set of indicators is used whether for measuring performance in different periods of time or in different enterprises. As for the last method, standards have to be laid down based on the performance data of similar enterprises in the past and on a detailed analysis of the various elements of production. This is a relatively more difficult task.

12.7 The criteria for evaluating performance listed above only indicate the strategy for undertaking the task. To give them an operational content, it is necessary to select certain ratios to serve as indicators of performance according to the different criteria listed in paragraph 12.4.

12.8 The ratios relevant to the first criterion will, of course, depend upon the non-commercial objectives prescribed for the public enterprises. It may be to develop a particular industry or provide a service to the community at reasonable cost or develop the economic conditions of a particular area or section of the community. Usually, success in these matters may be judged by the volume of output, the distribution of the products or services and the less tangible social value of the capital investment. As regards the second criterion, namely, that of maximizing profits, the return on the capital employed, which is itself a ratio, is the principal indicator. The variables indicating the quality of output are likely to differ from one enterprise to another, depending upon the nature of the product or service provided by the enterprise. Thus, in the case of utilities, like electricity and transport undertakings, the punctuality and regularity with which services are provided may serve as useful indicators. In the case of engineering and manufacturing concerns, the extent of consumers' demand for the products and their acceptability in the market will be the proper variables. This is, however, a *difficult proposition* in the case of enterprises operating under monopoly conditions. As regards the last criterion, namely, that of economy and efficiency in the use of resources, it is not a very difficult task to select ratios indicating the utilization, in physical and financial terms, of each category of input per unit of output. Inasmuch as labour is also one of the inputs, the management of a public enterprise have additional responsibilities other than efficiency in the use of resources, *i.e.*, labour productivity. Thus, the extent of welfare and social amenities provided to the workpeople by a public enterprise is also a factor that has to be taken into account while evaluating its performance.

12.9 To go into the problem more specifically, it is necessary to find out the main factors which have a bearing on each criterion. For instance, the aggregate revenue of an enterprise depends upon three factors namely, the volume of output, the price of the product and the ratio of output actually sold to that produced. The volume of output, in turn, depends upon the size of investment and the intensity of its utilization. The running costs, which together with overhead costs, give the aggregate cost, depend upon the size of investment, the running cost per unit of output, the intensity of utilization of capital and the price of inputs. Comparisons between ratios indicating the relation between some of these factors will yield the possible indicators that can be used for the purposes of a systematic measurement of the efficiency of the enterprise.

12.10 These ratios, while serving as useful bases for analysis, would not by themselves yield the proper inferences. Like any other set of statistics they require intelligent interpretation and explanation, particularly with reference to the constraints under which the management has functioned during the period under review. This is a very complex task requiring treatment by experts and a sophisticated investigatory apparatus for collecting the necessary information and data required for a proper analysis. It may be argued that the setting up of such organizations, within and outside the public enterprises, for a comprehensive and systematic measurement of efficiency is not a practicable proposition in the immediate future. We feel that it is a necessary and desirable objective, and for which preparatory steps should be taken to build up an organization of trained personnel and to enable them to gain experience of the actual working of the public enterprises. We also recommend that to begin with, simple and rough-and-ready yardsticks should be evolved and standardized, and the public enterprises should be required to report their performance on the basis of such a standard pattern that will be of use to themselves as well as to outside agencies.

12.11 Appraisal of performance has two aspects, *viz*, one which is done by the management itself for self-improvement and the other which is undertaken by external agencies acting as proprietors, or the agents of proprietors, *e.g.*, the Parliament and its Committees; the controlling Ministry and its inspection teams; and on behalf of the proprietors, by the auditors.

Internal Agency for Appraisal

12.12 It is essential for the proper functioning of any enterprise that the management itself feels primarily responsible for measuring the efficiency of its operations. From the standpoint of internal appraisal, the problem is largely an exercise in operational statistics. The complexity of this task in the case of public enterprises springs from the fact that management have to function within certain constraints imposed by the social and economic conditions, the non-financial objectives imposed on the undertaking and the lack of the infra-structure necessary for the enterprise, despite which the undertaking has been set up in the larger national interest. In our view, each public undertaking must have an adequate apparatus for regularly exercising efficiency-control and this apparatus must be an integral part of the management organization. The principal elements of such an efficiency-control system, broadly speaking, consist of performance budgeting, cost accounting, work study, materials management and market research to which we have referred in the earlier chapters.

12.13 However, we would like to reiterate the need for providing public enterprises with the consultancy assistance necessary for setting up the organization required for exercising internal efficiency-control. We recognize that for lack of trained manpower it may be difficult for many undertakings to set up such a full-fledged machinery in the near future and that it will, therefore, be advantageous at this juncture to go in for simpler and speedier methods of efficiency-control as mentioned in paragraph 12.10.

External Agencies for Appraisal

12.14 We have discussed in earlier chapters the examination by the Parliamentary Committee on Public Undertakings as well as the role of the controlling Ministries and the Bureau of Public Enterprises as regards appraisal of performance. We have also referred to the commercial audit of the C&AG which is claimed to be an efficiency-cum-propriety audit. We are of the view that at present there is no expert external organization for carrying out systematic appraisal. The Estimates Committee of the 2nd Lok Sabha made the following observations (30th Report):

"The Committee consider it desirable that in view of the fact that many of the State undertakings are not yielding profits and might not also be in a position to yield profits due to

some of them assuming a social service character, there should be a separate organisation to evaluate the working of such undertakings independently of profit consideration.'

The Committee further suggested that 'the organisation to be set up in respect of such undertakings should not be of an *ad hoc* nature but should be able to undertake examination of each undertaking periodically.' In pursuance of this recommendation Government have issued instructions for the setting up of inspection teams. These teams are to be set up by the administrative Ministries in consultation with the Ministry of Finance and are expected to conduct periodical inspections which are not to be restricted to financial matters but are also to cover other aspects such as general efficiency.

12.15 We are of the view that the setting up of inspection teams is perhaps not the best method for evaluating managerial efficiency. They are necessarily of an *ad hoc* nature and, from the managements' point of view, little different from the audit parties. In our view, the task of evaluation is being confused with that of inspection. The need is for a standing expert organization which can gain continuing experience of this type of work and which can take up the work of appraisal periodically and not in an *ad hoc* manner. As mentioned in the previous chapter, a comprehensive system of appraisal by an outside body has been evolved perhaps only in France. Drawing mainly on the French example, we have already suggested the setting up of Audit Boards for making audit more attuned to the needs of the public sector. We recommend that the task of undertaking periodic and systematic appraisals of managerial performance should be entrusted to the proposed Audit Boards. We feel that normally there should be no need for the administrative Ministry to send inspection teams in addition to the investigating parties functioning under the guidance of the Audit Boards. The inspecting officials of the Ministry can, in fact, be associated with the investigating party of the Audit Board. It will be possible in this manner to avoid duplication of effort and to save the time of the management who will not have to undergo successive investigations by different parties.

12.16 It is, however, necessary for this purpose that the investigatory staff of the audit board has the necessary expertise. The Audit Boards would therefore, have to augment the expertise of the auditors with the assistance of economists, management engineers, statisticians, etc and also those who have had the experience of working

in public enterprises. In fact, the experienced personnel of the enterprises can put in a very useful term of service on the staff of the Audit Boards on terms of deputation. The proposed Audit Boards and the investigatory staff will first have to gain a good deal of experience before undertaking a very comprehensive appraisal. They will also have to act at all times with due self-restraint and full understanding of their own limitations, aware that their task is only to evaluate managerial performance and advise the Government and the managements of the public enterprises and not to attempt to lay down managerial policy for the enterprises or the Government. The more important purpose of appraisal is not merely to assess what the management has done or is doing but to suggest guide-lines for improvement.

12.17 In conclusion, we would like to reiterate the necessity for clearly defining the objectives and obligations of public enterprises and for interpreting them more precisely in terms of financial objectives. Unless this is done, it is very difficult to lay down concrete standards of performance against which the efficiency of the public enterprises can be evaluated. The problem of appraisal is the problem of laying down suitable standards of performance and of evolving indicative yardsticks to assess how actual performance compares with what was estimated. We feel that for a proper appraisal of performance, it is essential that Government make a general statement of policy on the financial and other obligations of the various public enterprises. This is as necessary to formulate the financial framework for each enterprise as it is to prevent unfair criticism of the enterprises in the public sector.

CHAPTER XIII

METHOD OF WORK

13.1 The Study Team on Public Sector Undertakings was set up by the Administrative Reforms Commission on the 20th of May, 1966. The Study Team consisted of the following:

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| Shri Ravindra Varma, MP | Chairman |
| Shri P R Ramakrishnan, MP | Member |
| Shri P Venkatasubbaiah, MP | " |
| Shri Kripal Singh, Chairman, Railway Board | " |
| Shri R C Dutt, ICS, Secretary, Ministry of Finance (Department of Revenue and Insurance) and Director-General, Bureau of Public Enterprises. | " |
| Maj Gen Sardanand Singh (Retd), Director-in-Charge, Gujarat Refinery, Koyali. | " |
| Shri Prakash L Tandon, Chairman, Hindustan Lever Ltd., Bombay. | " |
| Shri S T Raja, Managing Director, National Coal Development Corporation, Ranchi. | " |
| Shri Naresh Chandra, IAS, Deputy Secretary, Administrative Reforms Commission. | Secretary |

The Study Team was asked, in regard to the subject allocated to it, to ascertain facts, locate the principal problem areas and examine solutions for the problems and suggest such of them as they would recommend for the Commission's consideration.

13.2 Shri H C Mathur, Member of the Administrative Reforms Commission addressed the first meeting of the Study Team. The discussions that the team had with Shri Mathur were of considerable help to us in defining the area of our study and determining the method that we should employ. The Team reviewed the procedures that could be adopted and came to the conclusion that the method of enquiry and the procedures should be such as would enable the Study Team to make a scientific and comprehensive examination of the subject, and yet complete the work entrusted to the team in a reasonable period of time. After examining alternative possibilities and the requirements of a study of the kind that was entrusted to us, we came to the conclusion that it was neither necessary nor feasible to undertake a detailed examination of the problems and working of each undertaking in the public sector. We, therefore, decided that our study would neither be a survey of the problems of individual undertakings nor of each undertaking in the public sector. We came to the conclusion that the only way we could do justice to the responsibility that had been entrusted to us was by studying the working of the public undertakings with a view to identifying their common problems and deficiencies, and formulating proposals for re-orientation of outlook and reform of structures and procedures that would have value and significance to undertakings in the public sector. We, therefore, proceeded to examine the subject on this basis, and formulated an illustrative list of issues which indicated areas that needed further exploration and study.

13.3 We felt it would be of great advantage to the team if we could meet some of the chief executives and financial advisers of public undertakings even in the initial stages of our enquiry. We decided to avail of such meetings to discuss the basic issues that we had formulated in the illustrative list. We felt that this would give us an opportunity to acquaint ourselves with the ideas and experiences of those who were running some of our public undertakings. In the month of June, 1966, we met the Chairmen/Managing Directors and senior finance officers of four important public undertakings. These were followed by discussions with the Secretaries of three key Ministries concerned with the public undertakings, and also with the officers of the Comptroller and Auditor-General who deal with the audit of public undertakings. The proceedings of all these meetings were recorded in summary form for future use.

13.4 The subject of our study required the collection and compilation of a great amount of facts and information regarding the work-

ing of public undertakings in India as well as in foreign countries. This task was rendered considerably light by the wealth of information available in a number of the most useful reports that Parliamentary Committees have brought out on the working of the Central Government undertakings. While we received considerable help from these reports as well as the reports of Government agencies like the Bureau of Public Enterprises, we felt that some of the information that was essential for our study could be collected and some of the material that we could obtain from other sources brought up-to-date and authenticated only from the undertakings themselves. We were hesitant to add to the number of detailed questionnaires that undertakings are asked to answer. But when we found that there was no alternative source of authentic information from which answers could be obtained speedily, we decided to draw up a brief questionnaire and address it to the undertakings of the Government of India. There was yet another reason for which we thought of a questionnaire. We were keen to have the benefit of the views and suggestions of a number of experienced officers in the Ministries and the public undertakings. But we realized that within the short time at our disposal, we would not be able to interview all those whose views we wanted to seek. We could reach a larger number of people with a questionnaire. But we did not want to burden everyone with the same set of standard questions. So different sets of questionnaires were drafted, each relevant to a different type of undertaking, and the managements of these undertakings and the Ministries concerned were requested to give us the necessary information and to offer us their views and suggestions. Of the 18 Ministries/Departments and 63 undertakings of the Central Government that we addressed, 16 Ministries/Departments and 57 undertakings sent us replies.

13.5 In addition to the information and views that we obtained in response to our questionnaires, we felt that the views of a number of persons both in the Government and in the private sector who had special knowledge and experience of the working of public enterprises would be of great value to us in examining solutions to the problems of the public sector. So we drew up a list of issues, instead of a questionnaire, intended to indicate the specific areas in which we were principally interested in ascertaining the views of such persons. In all, we requested about 60 persons, but in the midst of their preoccupations, many of those to whom we wrote found it difficult to send us their views within the date specified by us. We

received 21 notes and memoranda. A similar request was made to the various professional institutes and associations whose functions or interests have a bearing on public enterprises. In response to our request we received 4 notes or memoranda from such organizations. We are grateful to all the officers who found time to meet our Team. We are also thankful to all officers, individuals and institutes who helped us by sending us comprehensive and thoughtful replies to our questionnaire and letters. Their views and suggestions have been of immense value to us.

13.6 We regret to have to report that the efforts that we made to elicit the views and opinions of the Central Trade Union Federations did not meet with success. We were keen to acquaint ourselves with the views and experiences of the representatives of the organized labour force in the public sector, especially on matters like workers' welfare, management of townships, problems of retrenchment, labour productivity, etc. We, therefore, requested the four Central Trade Union Federations to give us the benefit of their views on these subjects. But we regret that we have not yet received any replies from them. We have no doubt that we would have had the benefit of their experience and points of view if they had replied to our request.

13.7 We felt that while the necessary background material and information was being collected we could visit some of the public undertakings of the Central and the State Governments and explore the views and experiences of a relatively larger number of officers at the project site. The team, therefore, undertook three tours for this purpose, to Ranchi, to Baroda and Bombay, and to Bangalore where a cluster of public sector projects are located. During these tours, the team held 12 sittings and met the chief executives and officers of 8 public undertakings of the Central Government, 2 of the State Governments, and one undertaking in the private sector. The Chairman of the Study Team, accompanied by the Secretary to the Team, also visited a Central Government undertaking at Ernakulam and 4 Kerala Government undertakings at Ernakulam, Trivandrum and Kundara and held discussions with the officers of these undertakings. The illustrative list of issues indicating the areas of study that we were covering were sent to these undertakings in advance to serve as a basis for our discussions. These discussions were also recorded in summary form. We would like to take this opportunity to express our gratitude to the chief executives and officers of the undertakings

that we visited for the courtesy with which we were received, the hospitality that was extended to us and for the frank and comprehensive discussions that we were enabled to have. We have no doubt that these visits and discussions were extremely useful to us in getting more intimately acquainted with the public undertakings, their problems, achievements and potentialities.

13.8 While our team was engaged in these visits and interviews, the research staff attached to the Study Team compiled and analysed the information and data contained in the various reports of the Parliamentary Committees, of Government agencies and the conferences and seminars held on different aspects of public enterprises. The staff of our team also collected information on the public enterprises in some of the foreign countries from published documents as well as from the foreign agencies themselves with the help of their embassies in India and our embassies abroad. All the embassies that were addressed on our behalf were kind enough to furnish the information that we needed. We are particularly grateful for this courtesy and assistance.

13.9 The information and material collected in this manner was analysed and Working Papers were drawn up by the Secretariat attached to the Study Team. These working papers covered the range of subjects that were being considered for incorporation in the report, and were supported by duly classified background material that gave a digest of the up-to-date factual position, the available comparative information with respect to some of the foreign countries and the views and recommendations of Parliamentary Committees, study teams, professional institutions, and persons of experience. To facilitate this work a Working Group was constituted comprising the representatives of some of the concerned Ministries and public undertakings as well as the Management Division of the Planning Commission. Besides contributing to the work of the working group, assistance was rendered by Shri J M Kitchlu and other officers of the COPP Management Division who presented papers on Planning and Construction of Projects, Materials Management, and Internal Audit. A task force in the *Indian Institute of Public Administration* (IIPA) under Dr G P Keshava extended similar help in respect of Budgeting, Pricing Policy, and Appraisal of Performance. We wish to place on record our high appreciation of the work done by all these groups, and to thank the members of the Working Group, the COPP Management Division, the Bureau of Public Enterprises and the IIPA task force, for all the valuable help we have received from them.

13.10 In all, 15 Working Papers supported by background papers were put up before the Study Team. These were the basic documents that helped us to focus our discussion on the problems that we came across and the solutions that we could offer.

13.11 In the course of our work, the Study Team held 40 meetings, visited 11 projects and interviewed a number of officers of the Central Ministries and the undertakings of the Central and State Governments. We maintained constant contacts with other study teams of the Administrative Reforms Commission that were covering adjacent areas or areas of common interest. We also considered the working papers and other material considered by other study teams whenever these were forwarded to us, and we found that they were related to any area of our study. In the same way, we too forwarded copies of our working papers to other study teams that were dealing with similar or allied subjects.

13.12 On two occasions, the Chairman and Members of the Commission met our Chairman, Shri Ravindra Varma, and reviewed the progress of our work. We are grateful to them for the encouragement and guidance that we have received from them and for the initiative they took to ensure coordination between our work and that of other study teams dealing with related areas. Throughout our work, we have had the benefit of the able guidance and advice of Shri H C Mathur, Member of the Administrative Reforms Commission. We are extremely grateful to him for the keen and sustained interest that he has taken in the work of our team, and the encouragement and support that we have received from him.

13.13 The work of our Team imposed a heavy burden on the small research and secretarial staff attached to us. They had to work very hard, and on a variety of subjects. The pressure for time often made us demand the difficult. Yet they worked with cheer and devotion. We would like to express our keen appreciation of the work done by Sarvashri C P Kapoor, Lekh Raj, Girish Chandra, M A Harpalani, and D P Bhandari whose efforts have enabled us to complete our work.

13.14 We hope that the results of our study and the solutions that we have suggested will help the Administrative Reforms Commission to identify the problems that our public enterprises are facing

and to recommend comprehensive reforms that will improve the economic effort of our public sector undertakings and enable them to fulfil the expectations that the Parliament and the people have of them.

Ravindra Varma

Chairman

P R Ramakrishnan

Member

P Venkatasubbaiah

Member

Kripal Singh

Member

R C Dutt

Member

Sardanand Singh

Member

*Prakash L Tandon

Member

S T Raja

Member

Naresh Chandra

Secretary

Dated the 10th June, 1967

*As Shri Prakash L Tandon was out of India on 10-6-67, the Report has been signed by him on 22-6-1967.

CHAPTER XIV
SUMMARY OF MAIN CONCLUSIONS AND
RECOMMENDATIONS

I Introduction

II Forms of Organization

1. It is not possible to single out any one of the three forms of organization, viz., departmental undertaking, Government company and public corporation as the only one suitable for the administration of all types of public enterprises and under all circumstances. (2.2)

2. The form of the departmental undertaking is unsuitable for the type of industrial and commercial enterprises covered in this Report. (2.3)

3. The principal defects generally attributed to the Government company form are outlined in paragraph 2.6. (2.6)

4. The pattern of public sector in India when compared with the pattern prevailing in some of the foreign countries reveals two important distinctions. First, instead of setting up the public undertakings as statutory corporations, or under the control of such corporations, the company form has been adopted in India. It is only in India that Government seem to have adopted the method of running companies by directly holding shares in them. Secondly, no single integral public authority has been created in India for a particular sector of industry and entrusted with the task of the general development of that sector including the running of undertakings in the sector and the setting up of new projects. (2.9 and 2.10)

5. The rigidity of the statutes of the corporations that have been set up or the inadequacies of autonomy provided for in statutes is no reason to conclude that these are defects inherent in the conception of public corporations and that Acts of Parliament setting up public corporations cannot provide for flexibility. (2.13)

*6. For considerations detailed in paragraphs 2.15 to 2.19, the form of public corporation is the one that is best fitted for the commercial

*Recommendations of basic character have been marked with an asterisk.

and industrial undertakings in the public sector. The public corporation form has distinct advantages over that of the Government company. Government should implement the declared intention of the first Industrial Policy Resolution in this behalf and adopt the form of public corporation as the general rule for the industrial and commercial undertakings in the public sector in India. (2.20)

*7. The recommendations with respect to different undertakings, as classified in paragraph 2.21, are as follows:

- (i) All public undertakings in the industrial and manufacturing field should be entrusted to public corporations, each governing a number of operating units in the same area of industry. It would be advantageous to retain the company form for units in which there is an element of private participation but in such cases the State-owned shares held in the company should be owned not by Government directly but in the name of the public corporation.
- (ii) The public corporation form is more suitable for undertakings falling in the category of public utilities and services. The statutes of existing corporations in this category should be revised with a view to ensuring that they are in accord with the needs of autonomy and flexibility.
- (iii) The company form is not suitable for promotional and developmental undertakings. Government may re-examine the desirability of continuing these undertakings as Government companies.
- (iv) Since the commercial and trading concerns operate in competition with their counterparts in the private sector, there is perhaps some justification in retaining the company form. (2.22)
- (v) In the category of financial institutions, LIC is a statutory corporation. The two other undertakings, viz., the Export Credit and Guarantee Corporation and the Film Finance Corporation which function as lending agencies may continue to retain the company form. (2.22)

8. A general review of the Companies Act and the applicability of its various sections to Government companies should be

undertaken to identify provisions that have no relevance or significance in the case of Government companies and are merely resulting in the observance of irksome formalities. Government companies should then be exempted from the operation of such provisions under Section 620 of the Companies Act. (2.23)

III. Organizational Structure and Management Boards

9. There is perhaps an advantage in having a policy-making board in the case of the smaller public undertakings. It is, however, injudicious to load these boards with busy Government officials in an attempt to give representation to every governmental agency concerned with the operation of the undertaking. With the exception of a representative each of the administrative Ministry and the Finance Ministry, the attempt should be to select members whose experience and qualifications will benefit the undertaking and who have adequate time and interest to do justice to their job of part-time directorship. (3.13)

*10. For considerations detailed in paragraphs 3.10 to 3.12, a few functional directors must be included in every board except for the very small enterprises. The superior authority of the chief executive should be recognized and respected, but the chief executive and the heads of the different departments should realise that the success of an industrial or commercial undertaking depends on the ability of top management to function as a team. The controlling Ministry should scrupulously respect the superiority of the chief executive by abstaining from dealing directly with the functional directors except with the knowledge and concurrence of the chairman. In such a mixed type of board the chief executive should be made the Chairman of the board; but, if for some reason, it is found specially advantageous to have a part-time chairman, the chief executive should be designated the vice-chairman. (3.14)

11. The establishment of a number of individual undertakings of varying sizes, very often, functioning in the same field of industry, has led to a fragmentation of the industrial effort in the public sector. It also exposes the autonomy of the public undertaking to the danger of erosion. (3.17 and 3.20)

*12. For the considerations set out in paragraphs 3.17 to 3.20, all the industrial and manufacturing concerns, except those under the control of the Ministry of Defence and the Department of Atomic Energy, should be brought under integral public corporations charged with the responsibility for coordinating the effort in the

industry and for providing the direction, supervision and auxiliary services that individual units require. (3.23)

13. The advantages that will flow from the setting up of the integral public corporations in the industrial and manufacturing field are outlined in paragraph 3.24. (3.24)

14. The running concerns in the industrial and manufacturing field of the Central Government should be regrouped† under integral public corporations. Similar possibilities exist in the case of the undertakings of the State Governments. (3.25)

15. Certain multi-unit projects in the public sector at present have units which may more appropriately belong to a corporation other than the one being proposed for that multi-unit project as a whole. It is difficult to lay down any hard and fast rules for the location of these units as between the concerned corporations. Normally, the principle should be to entrust such units to the corporation set up in the field of industry to which they belong even though they may be forming a part of a complex under the purview of another corporation. Possible exceptions can be projects that have been approved and established as integrants of a complex essential for the economic viability of the total complex itself. (3.26)

*16. It will be necessary to ensure that the integral public corporations grant the maximum possible operational autonomy to the project managers. The principal functions that should be assigned to the public corporations should be as listed in paragraph 3.28. (3.27 and 3.28)

*17. The powers and duties of the responsible Minister in relation to the integral public corporations should be as stated in brief in paragraph 3.29. (3.29)

18. A policy-making board composed mainly of part-time directors will not be able to discharge the functions proposed for the integral public corporations. The chairman of the corporation will necessarily require the assistance of a few competent full-time directors so that he can devote his time and attention to the broad and important matters of policy. It will be appropriate to give each full-time director a specific area of responsibility in which he possesses greater knowledge than his colleagues. (3.30)

19. In the smaller undertakings, the executive head of the department may be the director who bears special responsibility for

†See also Annexure V.

the subjects dealt with by his department. But in the larger undertakings the full-time director need not be made the head of the department or departments coming in his sphere. A separate executive could be appointed so that the director may remain free of the responsibility for the day-to-day management of the department.

(3.30)

20. Government representation on the board of a public undertaking should be restricted to one representative of the controlling Ministry and another of the Ministry of Finance. It should not be necessary to include the representative of the Government department which is the sole or the main consumer of the products of the undertaking. The requirement of consumer consultation can be taken care of by setting up joint consultative councils.

(3.32)

21. It will not be appropriate to include a representative of the workers of the corporation in its Board of Directors. But it may be of advantage to have a non-official who has had good and long experience of working in the trade union organizations as a member of the board.

(3.32)

22. It would also be advantageous to have a few part-time non-official members who have proved their outstanding abilities in some areas of industrial, commercial or financial enterprise or administration. They should be men who have faith in public enterprise and who do not have conflicting business interests with those of the corporation to which they are nominated.

(3.33)

*23. The management organization below the corporation level should be left to be worked out by the public corporations so that the requirements of each industry and undertaking at each stage can be taken fully into account. The relevant Acts setting up the corporations should provide for consultation with the Government on this question.

(3.37)

*24. It will perhaps be necessary to retain the company form in certain cases e.g., for undertakings not wholly owned by Government. With the setting up of the public corporations, the State-owned shares in the companies should be held by the corporation concerned, and not directly by the Government.

(3.38)

25. In sectors where it is necessary to have an element of private participation, including foreign participation, the project should still be set up through the agency of the public corporation, the corporation owning shares in the company in place of the Government.

(3.38)

26. In the case of smaller operating units, it may not be worthwhile to set up a formal management board. The overall responsibility can be entrusted to a single executive (General Manager) who will act as the agent of the public corporation. For the larger units, it will be advantageous to set up a management board or committee under the executive orders of the corporation. There will be no need to have Government representatives on such boards or committees. In the case of the larger units the corporation may find it desirable and necessary to nominate one or two of its full-time functional directors or heads of departments on the boards or committees set up at the unit level. (3.39)

*27. For many of the reasons detailed in the case of the industrial concerns, State Trading Corporation and the Minerals and Metals Trading Corporation should be merged. If the volume of work is considered unmanageable for a single corporation, a better way would be to have two managing directors for the two wings that may be created along the existing division of work but within a single company. On the same considerations, the management of the two hotels, viz., Ashoka Hotels and Janpath Hotels should be brought under the purview of the India Tourism Development Corporation. (3.40)

IV. Parliament and Public Enterprise

28. Although it is generally agreed that the scrutiny that Parliament exercises over the working of public enterprises should not extend to matters of day-to-day administration, it is extremely difficult to prescribe ready and infallible tests to determine in individual cases whether they are matters of policy or matters of day-to-day administration. The task can become somewhat easier if the objectives and the financial obligations of public enterprises have been clearly defined by Parliament. In our view, any act or omission of an act which directly affects the fulfilment of the objectives and obligations of a public enterprise cannot be described as a mere matter of day-to-day administration. In the same way, all matters, except those which have a bearing on any established policy of Government either in relation to that undertaking or the public sector as a whole, should ordinarily be treated as matters of day-to-day administration. (4.3)

*29. The present criteria for the admissibility of questions can be made more specific to exclude the matters that Parliament itself

has, by an Act, placed within the competence of autonomous corporations. This principle can also be extended to the Government companies as well. (4.7)

30. The actual working of the rules and guide-lines laid down for determining the admissibility of questions depends considerably on the initiative of the Ministry concerned. The Ministries should be more vigilant in ensuring that what Parliament itself has excluded does not reappear due to oversight or neglect. The admissibility of questions should be quickly examined first in the Parliament Secretariat and then in the Ministry to bring to the attention of the Speaker cases that attract the conditions for exclusion. They should also check whether similar information had not been supplied in reply to an earlier question. (4.8)

31. It is difficult to say whether the method of inquiry that the Committee on Public Undertakings has adopted will continue to be the only method that the Committee would employ in all cases. It may well be that the method that is now being followed has been chosen since it was considered the best method that could be employed in the initial years. At present, there is considerable reliance placed on eliciting information through detailed questionnaire. The managements of many public undertakings have observed that the meticulousness with which such detailed questionnaires emanating from a Parliamentary Committee have to be answered often imposed a heavy burden on them and sometimes resulted in the enquiry gravitating towards the area of day-to-day management. (4.13)

32. For the reasons detailed in paragraph 4.16, the Committee on Public Undertakings may consider taking up a group of undertakings falling within one area of enterprise and bringing out one consolidated report on that public sector industry as a whole. (4.16)

33. In the course of the examination of certain Ministries and general subjects, Parliamentary Committees other than the one on Public Undertakings, too are still going far into the area of public enterprise. With the setting up of a special Committee on Public Undertakings the scope and functions of other Committees of Parliament may be reviewed and re-defined to avoid overlapping and duplication. (4.17)

34. A few undertakings are already giving comprehensive information on their operations and future programmes in their annual reports, but there is room for greater selectivity in these reports. A majority of the annual reports give only sketchy information. There is insufficient recognition of the fact that one of the main purposes of the annual report is to enable Parliament to make an assessment of the efficiency with which an undertaking is being run. The guide-lines in this respect issued in 1962 are a little too general and they do not prescribe any specific form or suggest the necessary indicators that may be adopted for reporting performance to Parliament. (4.19)

35. The Bureau, in consultation with the Ministries and public undertakings concerned, should work out a model form for the annual reports. The Bureau should also prepare standard operational indices that could be adopted by the different public undertakings to provide essential information in a readily intelligible form. (The principal points that each annual report should contain are indicated in paragraph 4.21). The adoption of a common pattern of reporting and of standard operational indices will have the advantages outlined in paragraph 4.22. (4.20, 4.21 & 4.22)

36. In preparing the consolidated Annual Report on the working of public enterprises, the Bureau should adopt a more systematic classification of undertakings and evolve and use standard indicators for each major area of enterprise. (4.25)

37. The effectiveness of the supervision by Parliament, by whichever instrument it is exercised, very largely depends on the quality of the information that is made available. In supplying information to Parliament, whether in response to questions from Members or questionnaires from the Committee on Public Undertakings, the attempt should be to give full and imaginative replies and not literal and sketchy answers that leave a feeling of dissatisfaction. (4.24)

V. Government and Public Enterprise

1. Government Control

38. There is a definite lack of uniformity in the kind and extent of powers reserved to Government *vis-a-vis* different public undertakings. The existing variations cannot always be explained on a rational basis. Government should lay down the principles that

should govern the reservation of powers. A comparative review of the powers conferred on public undertakings to make appointments, incur capital expenditure, etc should be undertaken with a view to removing anomalies and ensuring that boards of undertakings that are similar in size and nature have the same degree of autonomy. (5.5)

*39. There is a degree of confusion about the division of responsibilities between the Government and the enterprise in the matter of public accountability, particularly in the case of Government companies. One of the advantages of the public corporation form is that it is based on a precise and statutory definition of the relationship between the Government and the undertaking, and provides for a clear-cut demarcation of responsibilities between them. This should be kept fully in view while drawing up the statutes establishing the proposed public corporations, and while framing rules and executive orders under these statutes. (5.6 & 5.7)

40. A Secretary or other officer of the Ministry should not be made the chairman of a public undertaking, and a Secretary of a Ministry/Department should not be included in the management board of the undertaking. (5.9)

*41. All appointments below the board level should be made by the board itself. In the case of financial advisers/financial controllers, the appointment should be made by the board but in consultation with the Government. (5.10)

42. The existing position regarding the powers enjoyed by the boards of public undertakings for sanctioning capital expenditure should be examined with a view to making an upward revision in the case of the larger undertakings. With the setting up of the proposed public corporations there will be still greater scope for enhancing the powers of the governing boards in the matter of sanctioning capital works. (5.12)

43. Where Government sanction the DPR with detailed estimates, the boards acquire full powers to incur expenditure. However, in case the sanctioned estimates have to be revised upwards by more than 10 per cent, the whole case has to be re-submitted to Government for re-scrutiny in detail. The range of 10% should be raised to 15% in view of the fact that there is almost always a general increase in prices between the time the DPR is prepared and the sanction is issued and work taken in hand. Moreover, the costs often

go up for quite obvious reasons. In such cases, the whole proposal need not be re-examined; scrutiny should be confined to the specific item or element of the proposal in which the increase has occurred and the possible effect of such an increase on the profitability of the project. (5.13)

*44. Government should not reserve any powers in the matter of delegation of powers exercisable by the board to the chief executive and other officers of the public undertakings, but should allow the board full freedom to delegate powers to its executive officers. The Government will of course receive information about any delegation that the board may decide upon and they can always make a suggestion or give a directive to the board in case they consider such a directive necessary and desirable. (5.14)

45. Any suggestion from Government to a public undertaking asking it to act in a manner other than that dictated on economic grounds should be in the form of an open directive and should be duly brought out in the Annual Report of the undertaking. (5.15)

46. While it cannot be possible in all cases for a Government representative to commit his Ministry to a proposal at the board meeting, the representatives of the Ministry should be able to have consultations and formulate the views of the Ministry on most matters appearing on the agenda even before they go to the meeting. If a determined effort is made at the Ministry, its representative can generally be in a position to speak on behalf of the Ministry at the meetings of the Board. The Ministry's official appointed as a part-time member of the Board should be a fairly senior person and not below the rank of a Joint Secretary. (5.17)

*47. The top management posts like those of the chairman or full-time members should be filled by deputationists only when there is no suitable alternative. Where officers have to be appointed, only those who have experience of working in public undertakings or similar establishments should be selected. Officers selected for appointment to these posts should be asked to sever their connection with the parent service on such appointment. A similar course of action should be adopted in respect of the posts of General Managers and Financial Advisers of the larger units. (5.18)†

†Also see para 8-11.

*48. The chairmen of the proposed integral corporations should be accorded a status consistent with the requirements and importance of their functions, even though it may mean a status higher than that of the senior-most permanent civil servant. In the case of the larger integral corporations that may be created the chairman should be given a status equivalent to that of the Governor of the Reserve Bank of India. (5.19)

49. Government should free the public enterprises from a large part of the control they are exercising at present and concern themselves mainly with its larger aspects. By reducing the spread of Government control, which appears to be much larger than it need be, Government will be able to focus attention on vital and strategic points, and thereby ensure a more effective compliance with their policies and directives. (5.22)

2. Government Machinery for Co-ordination and Control

50. With the increase in the number of ministries dealing with different sectors of industry, there are now several ministries and agencies of Government which are concerned with different aspects of work relating to the public enterprises. This has led to problems of coordination at various levels. Much of the existing multiplicity in this respect can and should be reduced by entrusting the work now being done by a number of agencies to an expanded Bureau of Public Enterprises. (5.24)

51. The basic nature of the Bureau should be that of a service agency. The primary responsibility for the efficient management of the enterprises rests on the enterprises themselves, and that for supervising their working and accounting for their performance to Parliament on the Ministries concerned. While the Bureau with its specialised experience can be of great assistance to the Ministries as well as the enterprises in discharging these difficult tasks, it would be harmful to duplicate the authorities responsible for these functions. (5.27)

52. On the considerations detailed in paragraphs 5.28 and 5.29, the functions that should be assigned to the Bureau should be as given in Annexure III. The broad organizational set-up of the Bureau should be as outlined in Annexure IV. (5.30)

53. An important task of the Bureau will be to indicate its role and prove its utility. The Bureau should act as a catalytic agent for promoting study and with the help of Department of Administrative

Reforms, Institutes of Management and other specialised institutions, organize and encourage expert groups to study the special problems of the enterprises and work out solutions which could be adopted for general application. (5.31)

54. In view of the functions proposed for the Bureau, it should be placed under the full-time charge of a senior officer, not below the rank of Additional Secretary, who has had experience of working in the public undertakings. In fact, the Bureau should ordinarily be staffed with persons who have had experience of working in the public enterprises. (5.33)

55. For the considerations set out in paragraph 5.34, it will be more appropriate to retain the Bureau of Public Enterprises in the Ministry of Finance, even if a Department of Industrial Development is established on the basis of the recommendations made in the Interim Report of the Study Team on Machinery of the Government of India. (5.34)

56. A nucleus technical cell should be set up in each Ministry concerned with public undertakings to enrich the quality of the scrutiny and evaluation of feasibility studies and DPRs, to secure proper processing and utilization of the reports and returns submitted by the public undertakings, particularly of projects under construction and to expedite action on various proposals received from the public undertakings. (5.36)

57. With the setting up of a properly staffed and expanded Bureau and the building up of the management organization in the enterprises, it will not be necessary to set up an elaborate organization in each Ministry. With greater delegation of powers to the public enterprises, the workload in the controlling Ministries will be considerably reduced. It will be appropriate to set up only a nucleus organization in the Ministry since the type of staff required to build up the organization of the Bureau, the various staff groups in the public enterprises and the technical cells in the Ministry, is already scarce and it will not be desirable to build up similar organizations performing similar functions, and yet multiplied and located at different places. (5.37)

***58. With the integration of undertakings into larger multi-unit corporations, it will be necessary to review their location under different Ministries. The general principle should be to locate a**

public enterprise on the functional principle *i.e.*, with the Ministry that is concerned with the development of that sector of industry. (This does not cover the undertakings of the Ministry of Defence). The grouping of Central Government public undertakings amongst different Ministries could be as indicated in Annexure V.

(5.38)

3. Reports and Returns

59. The existing system of reporting as between the public enterprises and the Government suffers from defects that have been outlined in paragraph 5.43.

(5.43)

60. Installing modern systems of management and information reporting within the enterprise will considerably simplify the problem of devising the proper method of reporting as between the public undertaking and the Government. If it is ensured that the required information, properly analysed, is available to the management, the Government will need very little information extra to that which is compiled and put up to the management board of the public enterprise. Therefore, the forms devised for presenting information to the Government and to the management board should, as far as possible, be identical.

(5.45)

61. An expert study group should be set up for carrying out a more detailed examination of the reporting between the public undertakings and the Government. The Bureau should take action in cooperation with the COPP Management Division and the Ministries concerned, also enlisting the assistance of external consultants in this field. The information requirements of the controlling Ministries and other Government agencies should first be reviewed to avoid overlapping and to enable standardized returns to be developed.

(5.46)

62. *The weekly and fortnightly reports that are at present in force should be dispensed with straightaway, unless required by law, or exceptional reasons exist for obtaining the information from an 'autonomous' body at such frequent intervals. Every controlling Ministry should periodically review the extent of utilization of these reports in order to cut out non-essential items of information and also to adequately strengthen their own organization for carrying out the required processing and analysis of information and for taking follow-up action.*

(5.47)

VI. Planning of Projects

63. The main inadequacies and deficiencies in the planning of projects have been as enumerated in paragraph 6.16. (6.16)

64. The memorandum on 'Feasibility Studies for Public Sector Projects' prepared by the Planning Commission (Committee on Plan Projects) can serve as a good blueprint and guide for the steps to be taken and the documents to be prepared before sanctioning a project. (6.17)

65. For every project involving investment above a certain limit, say, Rs. 5 crores and above, a feasibility study should be prepared on the lines set out in the Planning Commission memorandum on 'Feasibility Studies for Public Sector Projects'. (6.21)

66. The present procedure for assessing demand through the constitution of working groups in the Planning Commission may be useful for determining plan priorities or a notional allocation of resources for different projects, but it is certainly not good enough for an investment decision. Before going in for additional capacity in the public sector the agency concerned should assess the demand for the product in all its aspects, viz., the effect of price on demand, the location, the pattern and time phasing of demand and the practical possibilities of selling the products in competitive conditions in India and abroad. The possibility that the new capacity that is proposed to be created in a public sector project may already be available in some other enterprise within the country should be fully examined in the feasibility study. (6.22 and 6.23)

67. For projects not requiring foreign collaboration, the project scrutiny and subsequent Government approval to go ahead with the project may be based on the feasibility study report and applications for foreign exchange should also be disposed of on the basis of this report. Supplementary project estimates should, however, be prepared to take account of changes that might occur as a result of rise in prices, unforeseen circumstances and omissions or underestimations. The final release of funds should be authorized only after the preparation of the supplementary project estimates.

(6.26)

68. For projects where foreign technical collaboration is indispensable and when foreign collaborator is employed to prepare the DPR, Government or the public undertaking should prepare a feasibility study from the point of view of national economic benefits and the project approval should be based on this report. The DPR should contain adequate information on items indicated in paragraph 6.28. (6.27 & 6.28)

69. The development of designing and consultancy capacity in the public sector has been hampered because a large number of independent public undertakings have been set up even in the same field of technology. Amalgamation of these enterprises under large public corporations will not only help in the building up of the necessary capacity but also in its fuller utilization. (6.31)

70. The consultancy organizations within the country should be registered and classified according to their field of activity and their capacity. The Bureau in cooperation with the Ministry of Industrial Development and Company Affairs should undertake this work including the promotional measures necessary for building up the consultancy services required by the public enterprises. The public undertakings should be encouraged and assisted to set up adequate designing and consultancy organizations. (6.32)

71. The Bureau should be consulted on the availability of indigenous capacity and consultancy services in respect of each project for which the approval to the inter-Ministerial Negotiating Committee and Foreign Agreements Committee is sought. (6.33)

72. Turn-key contracts should not normally be awarded to foreign collaborators. It might, however, be necessary to obtain the latest technical know-how in the event of recent advances having been made in a particular field even though it resulted in the award of turn-key contracts. In such cases, the foreign contractor should be required to supply complete drawings and designs including the net-work and the time schedule of construction and to associate Indian engineers with the erection work and train them abroad. The contract should also specify that the overall control of construction (including turn-key jobs) would vest in the project management. (6.34)

73. In the case of inter-related projects, i.e., projects where the output of one constitute the input of another, a 'total systems' approach should be adopted to their conception and planning in order

to reduce the total cost of implementation and to avoid capacity created in one project from lying idle while another was being completed. (6.35)

74. Once it is decided to go through the project, the project manager as well as the key personnel to be later put in charge of departments like construction, finance, production and personnel should be selected and associated with the process of planning the project. (6.36)

75. The existing system of project evaluation and the scrutiny and evaluation of project reports have suffered from the defects outlined in paragraph 6.38. (6.38)

76. Often projects get included in the Plan on the basis of only a preliminary project analysis and not after a detailed feasibility study. This gives the impression that such projects stand approved and sufficient effort is not therefore put in subsequently to complete the planning and evaluation of these projects. This has sometimes led to the approval of projects which were later found to be technically or economically unsound. Projects should not be included in the Five Year Plans unless the feasibility studies have been completed and found to be satisfactory on scrutiny. Wherever a project is to be included without such a study, it should be mentioned solely as a notional target and no mention should be made of the location of such projects so that it does not become a commitment on the part of the Government to stick to the location mentioned in the Plan even though later studies may reveal the unsoundness of the earlier proposals on location or size. (6.39)

77. It is necessary to develop techniques for evaluating the return from projects in terms of national objectives, i.e., measuring the costs and benefits of a project from the standpoint of the overall economy and the development needs of the country. In principle, the criteria for evaluating a public sector project should be its national economic profitability as distinct from mere commercial profitability; but, it would be essential to insure against the possibility that ambiguity in defining national economic profitability and insufficient data may vitiate such an evaluation. The Government and the Planning Commission should evolve and lay down standard guide-lines that clearly define the criteria and the methodology for project evaluation from the standpoint of national economic profitability. (6.40)

78. Immediately on the receipt of the feasibility study/DPR, the administrative Ministry should set up a piloting committee consisting of the representatives of all the Ministries and agencies concerned and the Bureau. This Committee should undertake a concurrent and collective examination of all aspects of the study/DPR so that papers do not have to be sent from Ministry to Ministry and queries raised and answered through time-consuming correspondence. (6.43)

79. This piloting committee should also have a look at the preliminary project analysis as well so that the basic objections that any of the members might raise get taken care of during the planning stage itself and the time and effort of technicians and specialists spent in the preparation of the feasibility study is not wasted. (6.44)

*80. Government should progressively entrust the work of project planning and formulation to the running public enterprises. Furthermore, these enterprises should have the certainty that future projects in their field will be entrusted to them. Only then, will they feel and act on the need to set up and maintain designing and consultancy organizations without the fear that these may be described as expensive appendages or ornamental liabilities. (6.45)

VII. Construction

81. The main deficiencies in planning for construction of public-sector projects have been as enumerated in paragraph 7.12. (7.12)

82. Once a project has been approved on the basis of the feasibility study, systematic and thorough planning of the required construction programme should be undertaken before starting actual construction. (7.14)

83. For all projects involving a sizable investment, say, of Rs. 5 crores and above, a complete master plan of construction should be drawn up with the help of net-work techniques like PERT and CPM. (7.15)

84. The bulk of the work on a project is generally carried out under contract. The completion of project on time and within cost estimates depends largely on proper planning and coordination of each and every contract in the project. It is necessary that the effort under each contract is scheduled and coordinated within the framework of a master plan. (7.16)

85. The main defects in the preparation of contracts have been indicated in paragraph 7.18. (7.18)

86. The control and coordination that the project management can effect are directly related to the conditions incorporated in the contract documents. These documents have to bring together all the contracting parties and facilitate speedy and efficient execution of the construction work. The steps that should be taken to improve contract planning and the preparation of contract documents as well as scrutiny of tenders and selection of contractors are set out in paragraphs 7.19 to 7.26. (7.19 to 7.26)

87. Performance data regarding contractors is not being compiled by the public enterprises on a systematic basis and is not readily available. On the lines on which contractors are graded in different categories by the established departments of the Government, like the CPWD, MES and railways, the public undertakings too should grade contractors according to their performance capabilities. The information compiled should be referred to the Bureau of Public Enterprises from where it could be disseminated to other public undertakings. (7.27)

88. Quite some delay takes place in the signing of the final contract after the issue of the Letter of Intent to the selected contractor which delays initial payment, and execution of work. The period of work under a Letter of Intent should be reduced to the absolute minimum. (7.28)

89. The main factor diluting management control over construction work has been the lack of proper information reporting systems. It is necessary to adopt the net-work techniques (PERT/CPM) which not only facilitate planning for construction but also provide a sound base for building up an effective information and reporting system. (7.29 & 7.30)

90. Before starting construction, management should work out a realistic time-schedule so that the staff requirements do not get inflated due to an attempt to follow an over-optimistic construction schedule. Adequate manpower planning on a phased-requirements basis and minimising the quantum of work to be done departmentally will also help to keep the staff strength from increasing unduly. (7.32)

91. Substantial construction equipment, often imported from abroad, remains unutilized after the completion of the project for which it was procured while new projects go in for the purchase of similar items for lack of coordination. With the setting up of multi-unit corporations a more rational and fuller utilization of expensive construction machinery will become possible as the corporation will be in a position to move this equipment from one project to another as and when requirements arise. In the meantime, the Bureau should draw up an inventory of the surplus or idle construction equipment with projects that have already gone into operation to enable its utilization in the projects still under construction. (7.33)

92. Delays in construction result in direct increases in cost besides delayed realisation of benefits expected from the project. Proposals for funds, import clearance or matters effecting the flow of work on projects which are in an advanced stage of construction should be accorded the very highest priority by the controlling Ministry, the Ministry of Finance and the other Government agencies concerned. (7.34)

93. Deviations from original cost estimates should be got examined wherever they appear to be appreciable. Quite often, the estimates are pegged at low levels in order to make a project look more profitable than it actually is. The compilation of detailed information about such deviations will help in making future estimates more reliable. Such information should also be communicated to agencies connected with the technical scrutiny of feasibility studies of similar projects. (7.35)

94. During the construction of large and complex projects, managerial and engineering personnel acquire valuable experience and knowledge which could be usefully recorded in the form of a project completion report. Arrangements for the ultimate preparation of the completion report should be provided for at the very commencement of construction, so that all the useful material at every stage of project construction becomes available for sifting, compilation and analysis. (7.37)

95. Staff assistance to the project manager has been inadequate during the construction phase. There is considerable need for high level coordination and control to ensure the smooth progress of the work done by a number of contractors and agencies. A centralized staff group should be attached directly to the chief executive of the project. (7.38)

96. The smaller undertakings have to face considerable problems in acquiring and maintaining staff groups which though essentially required for greater efficiency they are not in a position to afford. They also have the problem of insufficient utilization of expensive construction equipment which after the construction phase is over, becomes surplus. Similarly, a number of qualified technical personnel having experience suddenly find themselves surplus. To some extent, they can be absorbed in maintenance jobs in the same undertaking or in some other undertaking, but the experience gained by them goes waste unless by chance they find berths in a new project under construction. These problems may disappear or become much less acute when the large multi-unit corporations suggested by us are set up for each industry in the public sector.

(7.39)

VIII. Personnel

1. Top Management

97. The whole procedure for the appointment of the full-time as well as part-time members of the board should be systematised. The Bureau can collect information on the qualifications and experience of those who can be considered for appointments to these boards and maintain a register of persons with the requisite competence to function as full-time members of the board. The procedure that is at present adopted by the Bureau can be further improved upon by associating some of the chief executives of important public undertakings with this work.

(8.5)

98. It takes time before an undertaking throws up sufficiently experienced and senior men to fill up directorships on its board. Till such time as this is achieved, it will be necessary to look outside the enterprise as well to pick out suitable persons who can be found from the body of Government servants, leading industrialists and businessmen and professional managers and specialists in the private sector. In fact, it is advantageous to introduce from time to time an outside element at the top management level.

(8.8)

99. It is highly important that, while making appointments to the board, preference is given to the officers coming from within the undertaking. For this purpose, a career development scheme and a definite ladder of promotion should be evolved in each undertaking. The smaller undertakings, that do not have enough promotion opportunities, should be offered the benefits of a common manpower scheme.

(8.10)

100. While appointing the representatives to the boards, the Ministries concerned should see that the persons nominated are not so burdened with the substantive work of the Ministry that they find it difficult or impossible to play a useful part in the board meetings. (8.12)

101. Certain general qualifications should be prescribed for the part-time non-official members of the board on the UK pattern. These qualifications can be experience of the industry or of industrial, commercial or financial matters, applied science, administration or the organization of workers. The chairman of the public undertaking should be consulted before the responsible Minister makes appointments to the board except in the case of the Government representatives. (8.14)

102. The existing schedules referred to in paragraph 8.16 should be revised so as to exclude all posts other than those of the chairmen and full-time functional directors of the boards of public undertakings. The Bureau should continue to draw up panels of suitable names for these posts as a kind of service, there being no compulsion for the public undertakings to confine their choice to the names available with the Bureau. For the posts of FAs/Financial Controllers, it will be necessary for the Bureau to draw up panels of suitable persons to facilitate consultation, prior to appointment on these posts, between the public undertaking and the Government. (8.17)

103. The salaries offered to the top executives in public undertakings should approximate to the rate for the job or at least bear a semblance to those offered in the private sector. Salaries in the public sector should not be pegged to the scales obtaining in Government. (8.18)

104. In the context of the proposals for larger corporations, the need for paying higher salaries to the chairmen, and full-time functional members of the multi-unit corporations will be all the greater. The chairmen of the proposed multi-unit corporations should be given a salary equal to that admissible to the Governor of the Reserve Bank of India (i.e. Rs. 4,500 per month). The salaries for the full-time functional directors of the proposed multi-unit corporations should be in the neighbourhood of Rs. 4,000 per month. (8.20)

105. Frequent changes and long vacancies in the top posts as have often occurred in the past have to be avoided. The situation will improve considerably when the deputation of Government servants on top posts becomes irreversible and the management boards are empowered to make appointments to all senior posts below the board level. The chairman and full-time functional members of the board should have a fairly long period of tenure to enable the person appointed to make a significant contribution on the basis of experience gained in the undertaking. A period of 5 years should be regarded as the minimum for the chairman and full-time members of the board, and a period of not less than 2 years for the part-time non-official members. (8.22)

2. Personnel Management

106. Public undertakings continue to depend on the Government services for manning the managerial and technical posts at the middle and higher levels. Analysis of data furnished by 29 undertakings relating to posts carrying a starting salary of Rs. 700 per month and above indicates that the percentage of posts held by deputationists was highest in the case of the finance and accounts organization where it was 38%. On the personnel and general administration side, the percentage was 33 and in the case of scientific and technical personnel only about 3. (8.25)

107. While it is very important to develop managerial resources within the public sector, it has to be recognized that for some time to come, public enterprises, particularly new projects, will have to draw on deputationists for manning posts at middle and higher levels of management. It is, therefore, necessary to identify the more harmful features of the existing arrangements regarding deputation. (8.27)

108. Whenever it becomes necessary to obtain officers from Government services the attempt should be to encourage permanent absorption in the undertaking and avoid the situation where posts are manned by one deputationist after another. Service rules should be liberalised for facilitating the absorption of deputationists at any level in the service of the undertaking; in particular, rules should be amended to enable deputationists to sever connections with the parent department without losing the accrued leave, pension and other retirement benefits. (8.28)

109. The period of tenure of the deputationists is often too short and does not enable the enterprise to derive the benefit of the experience gained by the deputationists. This term should, normally, be for a period of 4 to 5 years and it should be possible to review and terminate extreme cases of mal-adjustment at the end of the first year itself. To extend the term beyond 5 years may not be desirable as the officer will practically lose all touch with his parent department. (8.29)

110. A difficulty in securing a sufficiently long term of deputation is that an officer has little choice but to revert to his parent service if failure to do so would result in his losing a chance of promotion in his own department. The existing rules and orders on the subject should be modified to enable deputationists to serve a minimum four-year period, extensible by a further year or so at the request of the public undertaking. In case an officer becomes due for promotion in his parent department, the undertaking should be given the option of granting him promotion in its own organization if it wishes to retain the officer's services. (8.30)

111. A certain advantage can be derived from the system of deputation during the time for which it continues for lack of a practical alternative. The deputationists having had experience of working in the public undertakings will be better equipped to do their job in the Ministries concerned with public undertakings. This consideration should also be kept in mind by Government while making postings to the concerned Ministries. (8.31)

*112. The statutory corporations like Air India, IAC, etc, can frame or amend rules regulating the terms and conditions of service of their employees only with prior Government approval. This leads to undue rigidity. They should be exempted from having to seek prior Government approval in these matters. It is sufficient for the Government to lay down certain model rules which could be adapted by the undertakings to suit their individual requirements. (8.31)

113. It is true that ensuring a certain degree of uniformity in the matter of allowances and retirement benefits is a desirable end, but enforcement of uniform pattern may neither be advisable nor practicable in view of the number and variety of jobs. The best way to ensure rationality and a degree of uniformity in these matters

would be to provide information and expert guidance as an advisory service instead of insisting on prior Government approval or conformity with rigid guide-lines. (8.35)

114. The Bureau should collect information from different public undertakings about the service conditions, rules, pay scales etc and furnish it together with expert advice to all the public undertakings, the controlling Ministries and the Ministry of Finance. Government should, thus, have no difficulty in ensuring that public undertakings did not adopt different scales of pay for the same kind of posts. In case any public undertaking goes seriously out of line without due justification, Government will always be in a position to correct the situation, if necessary, by the issue of a directive. (8.36)

115. Government should ensure that every undertaking formulates and adheres to properly framed recruitment and service rules along the lines laid down by the Government. (8.37)

116. It is neither necessary nor desirable to set up a Central Personnel Commission for the public sector. (8.40)

117. Each public undertaking should be encouraged to formulate and implement suitable career development schemes in which a phased programme of training at different levels is linked to a definite ladder of promotion. (8.45)

118. It may not be a feasible proposition to revitalize the Industrial Management Pool in its original form. (8.47)

119. The new pool scheme described in Annexure IX is an improvement on the old IMP scheme. It prescribes a more systematic method for the placement of pool officers on encadred posts in the public undertakings. The main advantage of the new pool scheme lies in the fact that it will associate chief executives of the public enterprises in the Advisory Committee entrusted with the implementation of the scheme and offer wider prospects to the employees of public undertakings by facilitating inter-undertaking mobility. (8.50)

120. The problem of inadequate promotion opportunities would be considerably reduced with the setting up of large multi-unit corporations. These corporations will not only be able to offer wider prospects to their employees but also provide them with experience on a variety of jobs in the different units under their control. Even so, it will be desirable to have a common pool to meet the needs of such

smaller public undertakings as cannot be grouped under any multi-unit corporation and also such of the undertakings of the State Governments as wish to participate in the new scheme. (8.51)

121. Work relating to this scheme can be entrusted to the advisory committee suggested in the report (extracts from which are given in Annexure IX) which can function under the Cabinet Secretary and be serviced by the Bureau. The smaller public undertakings should be encouraged to take part in this common pool scheme so that they may be able to overcome the difficulties that they are experiencing in attracting and retaining suitable persons in their organization. (8.52)

122. In meeting the manpower requirements, the problems which are special to public undertakings are generally those which are faced by the very large industrial and commercial concerns. In such concerns the top management have to be provided with highly qualified and expert staff groups in the fields of planning, finance and accounts, and personnel and labour administration. This puts up the demand for staff of categories specified in paragraph 8.54. As the public sector expands and the proposed multi-unit corporations are set up, the need for these categories of personnel will increase very rapidly. (8.54)

123. At the instance of the Planning Commission and the Home Ministry most public undertakings have made a survey of their additional requirements for managerial and technical manpower for the Fourth and Fifth Plan periods. But since most of the undertakings do not have the necessary expert assistance to make fairly accurate estimates of the requirements for the future, Government should have the assessment made by the public undertakings examined by a body of experts with the assistance of the Institute of Applied Manpower Research. A much more detailed assessment of manpower requirements is necessary to formulate a concrete training programme, particularly for the specialised branches. (8.75)

124. Public enterprises need not assume responsibility for basic training in general management and training in professions which are required both by the public enterprises and private concerns. The existing training institutes can be more economically utilized for providing this type of training. Arrangements will, however, have to be made for in-plant training and induction of new recruits. (8.61 & 8.62)

125. The Bureau, in co-operation with the Ministries concerned, should undertake a survey of the existing training facilities to help avoid duplication and identify areas where training facilities need to be extended or increased. The Bureau, together with the representatives of the Ministries concerned and the public enterprises, should examine the curricula of training offered by different institutes to evaluate suitability of curricula to the requirements of the public sector and the quality of training imparted. (8.62)

126. The training of specialists and technicians listed in paragraph 8.56 should be the special responsibility of the public enterprises themselves. In discharging this responsibility enterprises operating in the same field of technology can co-ordinate their efforts. This co-ordination will, of course, become automatic once a multi-unit corporation is set up in each field. (8.63)

127. The draft outline of the Fourth Plan contemplates training programmes in management to be jointly sponsored by the Planning Commission and the Bureau of Public Enterprises, with a provision of Rs. 1 crore for the purpose. It should be possible to work out with the help of management institutes and specialised agencies concerned the possibility of running training programmes tailored specially to the requirements of the public undertakings. This work and the funds being provided for the purpose should be transferred to the Bureau. (8.63)

128. Although over-staffing does exist in many projects, its extent and nature is yet to be fully analysed and assessed. Sufficient steps have not been taken so far to locate the areas of over-staffing and to reduce the staff in those areas. Opportunities coming in the wake of expansion have not been fully utilized to absorb surplus staff. To some extent, this is due to the fact that new projects were generally set up as independent companies and not under the old running concerns. (8.66)

129. The main reasons for over-staffing have been outlined in paragraph 8.67. (8.67)

130. To overcome the problem of over-staffing, the real need is to take the circumstances of each case into account and to work out practical solutions consistent with the social obligations of the public undertakings. The adoption of proper standards and other control techniques is essential from the very beginning. After the situation goes out of hand, it becomes extremely difficult for management to retrench staff. (8.68)

131. In undertakings in which over-staffing has become chronic, it is necessary to have work studies undertaken by industrial engineers. Once the extent and areas of over-staffing have been identified, the subsequent absorption of surpluses during the expansion stage and the setting up of new projects will be facilitated. The immediate corrective steps already adopted by some undertakings, as described in paragraph 8.69, can be applied by other undertakings facing the problem of over-staffing. (8.69)

132. The problem of surplus construction staff is common to most industrial undertakings in the public sector. (See also recommendation no. 96). The Bureau can maintain information regarding the expected dates of completion of various projects so that new projects could be advised of the possibilities of construction engineering personnel becoming surplus elsewhere. This will facilitate mobility and enable the absorption of potential surpluses. Greater use of the construction corporations in the public sector and all non-departmental agencies, wherever feasible, will also tend to reduce the problem of surplus construction staff. (8.70)

133. According to a study report (made in 1963), the problem of flight of personnel, was not a general phenomenon in the public sector as a whole although there were several undertakings where unplanned movements had taken place. The main causes for this movement were identified in the study report, as outlined in paragraph 8.71. The problem of staff turnover is not so acute in the case of non-technical personnel. (8.71 & 8.72)

134. The problem of flight of technical personnel is being felt acutely in the Heavy Electricals, Bhopal (HEL), and to a lesser extent in the Neyveli Lignite Corporation, the IOC, the HMT, and a few others. In some cases engineers trained abroad at considerable expense by HEL were offered so much better terms by the private concerns that they left the HEL despite the liability to pay heavy penalty for infringement of the bonds that they had signed. To check this situation, the bond that the trainees have to execute should be for a minimum period of 5 years, and in the event of infringement, should be rigidly enforced. The training programme should be linked to a definite ladder of promotions so that a person has an added incentive to stay on after the completion of training. (8.74)

135. Some provision should be made in undertakings like Neyveli Lignite, the IOC and HMT, which too are facing this problem, to enable at least a certain percentage of engineer-entrants to receive comparatively early promotions to the next higher grade, as soon as they have completed their training. (8.75)

136. Generally, the personnel departments in public undertakings have been placed under officers on deputation who are often not professionally qualified. The status accorded to the department also varies from undertaking to undertaking. Personnel administration should be recognized as a staff function of the highest importance, and the department dealing with it should be equipped with the necessary expertise in industrial engineering, labour relations, manpower planning, etc, and attached directly to the chief executive of the undertaking. (8.77 and 8.78)

3. Industrial Relations

137. The special responsibility of the management in the public sector with regard to labour matters should be clearly spelt out by the Government. It may perhaps be possible for the National Commission on Labour to define these special responsibilities. (8.80)

138. It is most important for the management to have and to show a lively interest in the welfare of the employees. The promotion and training policies of public undertakings should be so devised as to convince the workers of the interest that management has in developing their skills and qualifications and improving their prospects and standard of living. The 'model employer' concept should not be interpreted, particularly by the officers of the Government Labour Department, to mean that management is bound to accept any demand that any organization of workers may put forth. Nor should the 'model employer' approach be construed to mean that supervising officers would be expected to condone or be lenient to laziness, indifferent work or acts of indiscipline. (8.81)

139. It is regrettable that deficiencies in the fulfilment of statutory obligations imposed on the management by labour laws are continuing despite the fact that Government have circulated model standing orders and grievance procedure for the guidance of the management. (8.82)

140. Managements of the public undertakings should take steps to have their personnel managers trained in industrial relations and labour management and to strengthen their personnel departments

in this respect. An officer who is professionally qualified or equipped with sufficient experience in labour management should be available at a senior position in the personnel department. The labour officer should have direct approach to the chief executive in case he felt that his advice was being unjustifiably disregarded by any line authority.

141. Officers entrusted with labour relations should not shoulder any direct responsibility in matters like recruitment, promotions and disciplinary action against workers. As a rule, a separate section should be established exclusively for labour relations within the personnel departments of public undertakings. In the larger undertakings, a separate department should be organized solely for labour relations.

142. The Ministry of Labour and Employment, which maintains a central pool of labour officers, should, in cooperation with the Ministries concerned, survey the anticipated requirements of undertakings, with a view to providing experienced men in larger numbers to the public undertakings and facilitating permanent absorption of experienced and qualified pool officers in the service of the undertakings. The Bureau can maintain a list of suitable labour officers to facilitate both their permanent absorption in the service of the undertakings as well as inter-undertaking transfers of these officers in suitable cases. Once a pool officer is deputed to an undertaking, the Ministry of Labour and Employment should not call for any direct reports from that officer. (8.86)

143 A fair degree of unanimity has already been reached on the conclusion that '*gherao*' is not a rightful or a legitimate weapon in the armoury of the trade union. Agreements between labour and management should be arrived at through collective bargaining and voluntary agreement. The public enterprises represent social property and the managements act as the agents of the State charged with the management of this social property in the collective interest. Therefore, '*gheraos*' in the public sector are particularly incongruous and injurious. While taking the necessary measures to ensure that the just grievances of labour are satisfactorily redressed and the awards of labour tribunals, wage boards, etc, expeditiously implemented by the management, the Central and the State Governments should take immediate and effective steps to check the spread of '*gheraos*' in all the industrial units, whether in the public or the private sector. (8.89)

144. While it may not be a practicable proposition to provide for compulsory recognition of trade unions unless the employers and the labour organizations are agreeable to, it, it is important to devise a suitable machinery which will enable management to decide between the conflicting claims put forth by rival unions. The procedures for the verification of union memberships should be streamlined and made more effective. (8.92)

145. The difficulty that trade union officials experience in collecting union dues should be viewed sympathetically by the managements. We hope that the National Commission on Labour may examine the relative merits of systems like the 'check-off system' (under which union dues are collected by making deductions from the wages) and others that have been adopted in other countries, and recommend practical steps. (8.93)

*146. There are advantages in applying uniform labour laws on all the establishments of the same public enterprise. For considerations set out in paragraphs 8.94 and 8.95, it would be advantageous to bring certain categories of heavy industries (indicated in paragraph 8.95) within the Central sphere for matters relating to the settlement of industrial disputes.

147. The attainment of higher morale, discipline and improved incentives largely depends on facilitating and developing communication within the enterprise. Communication does not merely consist of making available more factual information about the industry but includes certain positive aspects. Foremost is the need to instil in the workers a sense of partnership and pride in the public enterprise and a sense of responsibility for its efficiency and well-being. It is also necessary to make the workers of public undertakings aware of the major problems that the country and industry are facing. This can be achieved by promoting greater understanding through an effective programme of education and training. (8.98 and 8.99)

148. Managements should take Works Committee meetings as opportunities to inform the workers of their plans and difficulties and to explain the reasons for the changes being initiated. Due publicity should be given to the proceedings of the Works Committee so that the workers' representatives may feel more interested and responsible for what emerges from the discussion. (8.100)

149. There are considerable variations in the expenditure incurred on various items of workers' welfare in different undertakings. It is not possible to lay down any rigid financial limits in this regard.

However, Government should have the question examined by a committee consisting of the representatives of a few selected public undertakings and the Ministries concerned to work out guide-lines and norms for ensuring a certain degree of uniformity. (8.103)

150. The association of workers in the management of enterprises can be an important means for maximising cooperation between the workers and managements. However, it is necessary to examine the extent to which workers' association can be secured in the conditions that exist in our country. Public enterprises should take the lead in setting up joint consultative machinery and in working the joint management councils in proper spirit and perspective.

(8.104 and 8.107)

IX. Financial and Materials Management

1. Financial Management

151. The budget should not be looked upon merely as an instrument that provides the basis for obtaining funds or as an instrument of control over those who are authorized to spend. It should be viewed as a plan and a programme of action—an integral part of the management dynamics which enables the members of an enterprise responsible for the use of resources, to project their ideas into the future and concurrently to look back and review the actual performance as compared with promise and intentions. (9.6)

152. A comprehensive budget for the industrial and commercial enterprises should also use non-financial units, wherever desirable, and embrace the entire organization to cover *inter alia* the range of budgeting activities enumerated in paragraph 9.8. (9.8)

153. The preparation of the revenue budget should be taken as an opportunity to make a comprehensive and forward-looking review of plans and standards. It is a two-way process, the submission upwards of estimates for different units, and the transmission downwards of provisions decided upon at higher levels. The work of budget preparation should begin sufficiently in advance to enable every part of the enterprise to be associated in the preparation of estimates and to have their own separate budgets within the overall budget of the enterprise. (9.11)

154. The comparison of actual figures of performance with those estimated in the budget should be carried out periodically during the currency of the budget as well as after closing of the accounts as indicated briefly in paragraphs 9.14 and 9.15. (9.14 and 9.15)

155. All management levels required to submit reports and returns should themselves be encouraged to analyse and make use of the data with the assistance that the finance and accounts organization can provide. Periodical comparisons of results with the budget estimates are essential to keep the estimates up-to-date both for purposes of policy formulation and for keeping a regular check on performance. Investigation into the deviations from the results originally estimated, generally referred to as the technique of 'reporting by exception' or 'control by exception', enables effective and speedy control to be exercised over subordinates, where necessary. (9.16)

156. The capital expenditure budget also involves the same two-fold process as the revenue budget. Every public enterprise should have a fairly long-term capital expenditure budget to serve as a framework within which individual schemes can be planned, approved by the Government and taken in hand. (9.18)

157. Model budgetary forms, like the standard form introduced for estimates of capital outlays on townships, should be worked out in respect of other common items of the capital expenditure programme and circulated to the public enterprises for information and use. (9.19).

*158. As in the United Kingdom, Government should each year discuss with the undertaking and approve the general lines of its plans for development and capital expenditure for the next five years, agreeing to appropriate long-term commitments as well, to enable the enterprises to undertake long-term capital planning on a realistic basis. The controls needed to keep public sector investment generally within the Government's resources can always be prescribed. (9.20)

159. The cash budget and the preparation of periodical budget comparison statements and cash flow statements should be treated as an integral part of the budgetary process. This is necessary to make payments as they fall due without incurring the unnecessary liability of accumulated cash balances lying idle. (9.22 and 9.23)

160. Each public enterprise should be asked to compile a comprehensive budget manual to cover the items detailed in paragraph 9.24. The Bureau should initiate action in cooperation with the Ministries concerned and with the assistance of outside experts, wherever necessary, and provide effective consultancy assistance to enable the enterprises to compile a budget manual suited to their needs. (9.24)

161. Improvement in budgetary and financial control should be accompanied by a greater delegation of authority as well as a reduction in the number of cases requiring prior financial concurrence. This can be achieved by increasing the financial powers of managers, purchase officers, etc, and providing for inter-branch standing committees for such purposes as the review of tenders, the purchase of equipment and stores etc. The views and advice of the finance branch should be available to the line authority in these committees, but the need for prior concurrence should be dispensed with. (9.26)

162. There is a good deal of misunderstanding in various quarters about the nature, scope and performance of internal audit in relation to the public enterprises. In the public enterprises, internal audit should be viewed as a service provided to the management organization, intended only to serve certain management needs. The role of the internal audit organization in the public enterprises should be as defined in paragraphs 9.28 and 9.29. (9.28 and 9.29)

163. The principal tasks of internal audit should be as set out in paragraphs 9.30 and 9.31. (9.30 and 9.31)

164. The internal audit organization should be effectively organized in every public enterprise. Besides promoting greater efficiency, this will also help in reducing the scope and intensity of external audit. The Bureau should provide consultancy assistance to the undertakings to enable them to set up adequate finance and accounts organization including internal audit on the right lines. (9.33)

165. It is of the utmost importance that the Financial Adviser (FA) of an enterprise should deem himself to be an integral part of the management team and not look upon himself as an outsider representing the financial interests of the Government. (9.34)

166. The role of the FA should be that of the principal adviser to the chief executive in all financial matters. The FAs should be encouraged to place greater emphasis on the management accounting aspect of their working rather than on maintenance accounting or insistence on checks, scrutiny and approval of proposals coming from different departments. (9.34 and 9.35)

2. Materials Management

167. The sheer size and value of the inventory holdings of public enterprises indicate that it is essential to subject them to strict technical scrutiny. Even a marginal reduction brought about in the hold-

ings will more than repay the cost and effort of such an investigation. It is equally important to review procedures both in the public undertakings and the controlling Ministries to reduce the administrative lead-time for obtaining materials which forces managements to maintain higher stock levels. (9.43)

168. The more common defects in materials management are reported to be as recounted in paragraph 9.45. (9.45)

169. As a first step, materials management should be accorded due recognition at the top level where a Central Control Section should be set up for materials planning and for securing the introduction of modern techniques of materials management. (9.48)

170. A comprehensive materials management manual should be drawn up to give concrete shape to the relevant scientific concepts and to outline the prescribed procedures to help disseminate information to all relevant levels and the general adoption of improved techniques. (9.49)

171. Every simplification of the procedures that helps to shorten the administrative lead-time will tend to reduce the stock holdings and the safety stock levels and thus, release a proportion of the capital tied up in inventory. For simplifying the operating procedures within the undertaking the steps indicated in paragraph 9.52 should be taken. (9.51 and 9.52)

172. It is necessary to be conservative in estimating the requirements of items required during the construction phase like earth-moving equipment, vehicles, common tools, safety materials like goggles and boots etc. and not base the estimates on too optimistic a time-schedule of construction. Each project under construction should have a central planning group for materials under the chief engineer in charge of construction for planning the total requirements and phasing their procurement. (9.54 and 9.55)

173. The recommendations made by the foreign collaborators on the provision of adequate spares should be subjected to a thorough scrutiny and examined in comparison with the position prevailing in similar plants abroad, including the foreign collaborators own plants, to ensure that a new project was not being saddled with unduly heavy stocks of slow-moving items. (9.56)

174. A nucleus cell consisting of technical experts as well as materials management experts should be formed in each project, especially in those with substantial dependence on imported items to systematically identify and catalogue the spares and obtain their manufacturing drawings and specifications as a first step towards establishing their indigenous manufacture. For items required non-repetitively and in small quantities, projects should not delay in creating their own workshop facilities. (9.57)

175. Government should evolve effective inspection arrangements to exercise sufficient check on the indigenous manufacturers and the quality of their products so that these manufacturers do not enjoy too monopolistic or commanding a position in relation to the purchasing public enterprises under the shelter of Government's understandable desire to promote import substitution. A uniform policy of price preference should be formulated by the Government to serve as guidelines for the public enterprises, indigenous manufacturers and the DGTD. (9.58)

176. The recommendations made by the Mathur Committee for facilitating imports by the public enterprises, and accepted by the Government, should be effectively implemented as soon as possible. The steps outlined in paragraph 9.62 need to be taken in particular. (9.62)

177. Training in materials management should be given greater importance and the efforts should be to have fully trained staff in the materials management organization. It will be advantageous to impart short-term training to the personnel of other departments as well, since the management of materials is an integrated programme requiring the cooperative action of all the concerned branches. Adequate permanent facilities should be created to provide both long-term specialised training as well as short-term training courses in materials management. (9.64)

X. Financial Matters and Pricing

1. Financial Matters

178. It does not seem appropriate to prescribe a single, common loan-equity ratio 1:1 for all public enterprises irrespective of their size and productive function. A distinction should be made between capital intensive enterprises and trading concerns. The whole question of equity-loan ratio should be re-examined and a proper capital structure worked out for different categories of public enterprises. (10.3)

179. The existing procedures for releasing funds to the public undertakings should be liberalised to ensure that work is not held up while projects wait for an elaborate pre-scrutiny of already budgeted amounts. It should be possible for the administrative Ministry, as also the Ministry of Finance, to exercise post-withdrawal scrutiny of the manner in which funds have been released and utilized by the public undertakings. (10.5)

180. The amount of capital required by the public enterprises is much too large to be raised in the open market without the support of a Government guarantee or the Reserve Bank of India. Such unguaranteed borrowing by highly capital intensive projects that usually have long periods of gestation is not a realistic proposition at the present moment. The creation of a separate financing institution for the public sector will, at this stage, be unnecessary and premature. (10.6 and 10.9)

181. The current policy of the Government that for working capital requirements public enterprises should normally obtain funds from the banks without depending on the Government or a Government guarantee, is sound. But, in certain cases, public undertakings might be unable to secure funds in this manner, particularly in the initial stages. Government should be willing to provide the necessary guarantee and to consider the request of public undertakings even for working capital requirements in case the latter are unable to obtain funds from the banks. (10.10)

*182. Public enterprises should be authorized to deal with any scheduled bank that has deposits above a certain limit. Public enterprises should be free to have cash credit arrangements with such banks for meeting their working capital requirements, with the condition that information about such arrangements should be furnished to the Government. (10.11)

*183. A public undertaking, whether it is a Government company or a statutory corporation, should not be required to submit its revenue budget to Government or Parliament for prior approval unless it is a deficit budget and the Government is expected to make up the deficit. (10.12)

*184. It is now 11 years since the last Industrial Policy Resolution was formulated and during this period undertakings have been set up in all the areas reserved or designated for public enterprises in Schedule A to the Resolution. The time has now come for a more

specific and clear statement in which Government lays down the principles that should guide the creation of various reserves, the extent to which enterprises should undertake the responsibilities of self-financing, the anticipated returns on the capital employed, and the basis for working out rational wage structures and pricing policies. There should be regular consultation between the Government and the public enterprises to review the extent to which undertakings can expect additional finance for their capital requirements and the amount of surpluses that can be expected from the undertakings. (10.18)

*185. It appears that the accruals anticipated to Government on the capital invested are determined more or less *ad hoc*, and in many cases the anticipations go off the mark. Broad principles should be laid down for determining the division of profits (after depreciation) into retained profits and the dividend to be paid to the Government. The extent of retained profits should be determined by the obligations that the enterprise has for self-financing for future expansion. (10.22)

186. There is considerable scope for reducing expenditure on townships by adopting uniform and more economical standards. Despite these economies, however, most public undertakings will have to incur substantial expenditure on providing housing and other facilities to their staff and workers. This financial burden on the public enterprises should be kept in mind while evaluating their performance. (10.28 and 10.29)

*187. It should not be necessary for the Central Government to route funds for subsidizing housing schemes for their industrial workers through the State Governments. The very introduction of the Subsidized Housing Scheme shows that Government agree, in principle, to subsidize upto 25 per cent of the cost of houses for industrial workers drawing salaries below a certain level. Considering the fact that the capital for construction of townships is, in any case, provided by the Government, the provision of the subsidy can be made at the very start. While approving the part of the project report relating to the construction of houses for industrial workers, Government should determine the subsidy that is admissible in accordance with the conditions prescribed in the Subsidized Housing Scheme and treat that amount as subsidy and not as capital investment made by the Government. (10.31)

2. Pricing

188. Generally, all enterprises, with the exception of those working under a system of administered prices, have formulated their price policy with a view to covering costs and making a surplus on the basis of whatever assumptions they had of their obligations since only general indications have been given about the rate of return expected from the enterprises. It will not be a healthy development if public enterprises working under monopoly or near-monopoly conditions attempt to increase surpluses more by increasing prices, and less by reducing costs and ensuring fuller utilization of their capacity. (10.38)

189. Self-financing for expansion should be taken as a specific obligation of our public enterprises in the industrial and manufacturing field. Public enterprises should provide additional resources to the State in a developing country where the rate of re-investment in development programmes by the Government is higher than that by individuals. There might be instances where larger social considerations require a public enterprise to deliberately forgo earning of profits. Even in such cases the minimum to be aimed at should ordinarily be that the enterprise is able to pay its own way, i.e., break even after providing for depreciation charges calculated on a realistic basis. (10.41)

190. While formulating the pricing policies of units in the public sector, the principles outlined in paragraph 10.42 should be kept in view. (10.42)

191. If Government require a public undertaking to keep prices at an artificially low level, the financial obligations of that undertaking should be revised. If an undertaking has to pursue an unprofitable course of action under Government directions then the Government should either subsidize it or the enterprise should be entitled to ask for a downward revision of its financial obligations. (10.43)

192. Wherever public undertakings are operating under non-competitive conditions and where the number of buyers of the products is limited, the price levels should be determined on the basis of the c.i.f. value of similar items in preference to the cost plus formula. However, the ability to produce goods at costs matching the c.i.f. price of similar goods will differ from undertaking to undertaking. Therefore, a detailed examination of the cost structure of

the products of the undertakings concerned should be undertaken to determine the levels of permissible deviations. For this purpose, Government can utilize the machinery of the Tariff Commission or the Cost Accounts Organization of the Ministry of Finance. (10.46)

193. It will not be advisable to set up a statutory body for settling inter-undertaking disputes over prices because of the lengthy procedures and the delay that the procedures of such a body will entail. A more practical solution lies in streamlining the existing *ad hoc* processes through which disputes are being resolved. High-powered standing committees consisting of the representatives of the public undertakings and the concerned administrative Ministries should be designated and standard procedures laid down for cutting out delays in deciding matters under disputes. It would be helpful if the Chief Economic Adviser or his nominee is also included in this committee so that he might be able to provide objective, expert advice to the committee. (10.50)

*194. Where the agencies involved in a dispute over prices are under different governments, it might not always be possible to settle disputes without decisions from a statutory body. In such cases, the agency and expertise of the Tariff Commission may be utilized or a special administrative tribunal set up, with the statutory authority necessary to ensure that its decisions are binding on the undertakings concerned. (10.51)

XI. Audit

195. The main points of criticism of the existing system of audit are recounted in paragraph 11.4. (11.4)

196. It is necessary to reduce the existing multiplicity of audit arrangements as well as bring about a necessary reorientation in the attitude of Government auditors to conform to the special requirements of the public enterprises. A full consideration of the possible alternatives reveals that it is not possible to effect these improvements without a radical change in the existing system. From a study of the parallel position obtaining in other countries it appears that there are a number of advantages in adopting the system of audit prevailing in France with certain suitable modifications. (11.16 and 11.20)

*197. The work that is at present being done by the Directorate of Commercial Audit should be divided amongst 4 or 5 audit boards, each audit board dealing with a particular major area of enterprise.

like iron and steel, engineering, chemicals, trade and commerce, and transport etc. Each of these boards should have 5 members including 3 senior audit officers as common permanent members. For this purpose, an Additional Deputy C&AG should be designated the common chairman of these boards; the other two common permanent members should be of the rank of Accountant General. This may require an additional post of Accountant General which will be required in any case with the expansion of the public sector. The two part-time members of each board should be appointed by the Minister responsible for the development of that particular industry; they need not be serving officials of the Ministry but may be selected from amongst very senior persons experienced in the work of public enterprises or from among experts in commercial or financial matters. It would be advantageous if one of the two part-time members has occupied senior managerial posts in the public enterprises. (11.21)

198. The existing departmental set-up of the Directorate of Commercial Audit should be utilized for providing the secretariat and investigating staff to the audit boards. The administrative control over staff and the responsibility for running the organization can be vested in the three permanent members. It will be necessary to provide reorientation and training to the existing staff and to recruit certain specialists and experts like statisticians, economists and cost and chartered accountants. If an organization is to undertake the task of efficiency-cum-propriety audit it is essential that its staff should at least resemble in expertise and specialisation the management organization of the enterprises concerned. (11.22)

*199. Reports relating to individual undertakings should be discussed in the audit board in the presence of the representatives of the ministry concerned and the public enterprise under examination. These reports should not be treated as confidential but should be presented through the controlling Ministry to Parliament. (11.23)

200. A large portion of the work, mainly relating to regularity audit may be got done by the audit boards through the professional auditors. The work assigned to the professional auditors should be clearly defined and distinguished from that done by the audit boards' own staff. For each undertaking, or class of undertakings, combined audit parties comprising the staff of the audit boards as well as professional auditors should be formed for carrying out their task concurrently and collectively. This will effectively minimize the chances of duplication. (11.24)

201. The scope of the work that the audit boards are expected to do will have to be clearly defined. The audit boards can be really beneficial to the undertakings only when they function more for the constructive purpose of suggesting improvements than for focussing attention on the errors and deficiencies of management. The audit boards will have to guard themselves against the temptation to prefer their own judgment to that of the management boards. Within this framework, an investigation by a body of person having professional competence in audit work in cooperation with experts from outside will not only indicate the true financial status and prospects of an enterprise but will also inform management of the areas of possible improvement. (11.27)

XII. Appraisal of Performance

202. To make a fair assessment of the working of the public enterprise, it is important to draw a clear line of demarcation between the responsibilities of the management and the Government. Government exercise a range of controls over a public enterprise and the management has to function within the framework of these controls. It will, thus, be fair to judge the performance of the management in the light of these constraints on its actions. (12.2)

203. The performance of a public enterprise should be evaluated in the terms of the success achieved by management in the spheres and in the order indicated in para 12.4. (12.4)

204. The setting up of a sophisticated investigatory apparatus, within and outside the public enterprises, for a comprehensive and systematic measurement of efficiency may not be a practicable proposition in the immediate future. However, it is a necessary and desirable objective for which preparatory steps should be taken to build up an organization of trained personnel. To begin with, simple and rough-and-ready yardsticks should be evolved and standardized, and the public enterprises should be required to report their performance on the basis of such a standard pattern that will be of use to themselves as well as to outside agencies. (12.10)

205. It is essential for the proper functioning of any enterprise that the management itself is primarily responsible for measuring the efficiency of its operations. Each undertaking must have an adequate apparatus for regularly exercising efficiency-control. The principal elements of such an efficiency-control system, broadly

speaking, consist of performance budgeting, cost accounting, work study, materials management and market research. (12.12)

*206. At present, there is no expert external organization for carrying out systematic appraisal. The arrangement under which inspection teams are to be set up by the administrative Ministries in consultation with the Ministry of Finance to conduct periodical inspections is not the best method for evaluating managerial efficiency. The need is for a standing expert organization which can gain continuing experience of this type of work and which can take up the work of appraisal periodically and not in an *ad hoc* manner. The task of undertaking periodic and systematic appraisals of managerial performance should be entrusted to the proposed Audit Boards. The inspecting officials of the Ministry can be associated with the investigating party of the Audit Board.

(12.14 and 12.15)

207. For this work, the Audit Boards would have to augment the expertise of the auditors with the assistance of economists, management engineers, statisticians, etc, and also those who have had the experience of working in public enterprises. In fact, the experienced personnel of the enterprises can put in a useful term of service on the staff of the Audit Boards on terms of deputation. (12.16)

208. The Audit Boards will have to act at all times with the due self-restraint and full understanding of their own limitations, aware that their task is only to evaluate managerial performance and advise the Government and the managements of the public enterprises and not to attempt to lay down management policy for the enterprises or the Government. (12.16)

209. The problem of appraisal is the problem of laying down suitable standards of performance and of evolving indicative yardsticks to assess how actual performance compares with what was estimated. For a proper appraisal, it is essential that Government make a general statement of policy on the financial and other obligations of the various public enterprises. This is as necessary to formulate the financial framework for each enterprise as it is to prevent unfair criticism of the enterprises in the public sector.

(12.17)

*Recommendations of basic character have been marked with an asterisk.

ANNEXURE I

(Vide Para 2.4)

PUBLIC UNDERTAKINGS OF THE CENTRAL AND THE STATE GOVERNMENTS AS AT THE END OF THE THIRD PLAN PERIOD

I.—List of Central Government Undertakings

| Sl. No. | Undertaking | Total investment as on 31-3-66 | Administrative Ministry concerned |
|-----------------------------|--|--------------------------------|---|
| (Rs. in crores) | | | |
| A. INDUSTRIAL UNDERTAKINGS | | | |
| (i) Iron and Steel | | | |
| 1. | Bokaro Steel Ltd. | 20.95 | Steel, Mines and Metals. |
| 2. | Hindustan Steel Ltd. | 960.10 | Do. |
| (ii) Engineering and Mining | | | |
| 3. | Bharat Earth Movers Ltd. | 6.81 | Defence. |
| 4. | Bharat Electronics Ltd. | 8.61 | Do. |
| 5. | Garden Reach Workshops Ltd. | 2.00 | Do. |
| 6. | Hindustan Aeronautics Ltd. | 39.70 | Do. |
| 7. | Hindustan Shipyard Ltd. | 6.09 | Transport and Shipping. |
| 8. | Mazagon Dock Ltd. | 3.07 | Defence. |
| 9. | Praga Tools Ltd. | 2.99 | Do. |
| 10. | Bharat Heavy Electricals Ltd. | 62.58 | Industrial Development and Company Affairs. |
| 11. | Heavy Electricals (India) Ltd. | 84.02 | Do. |
| 12. | Heavy Engineering Corporation Ltd. | 142.42 | Do. |
| 13. | Hindustan Cables Ltd. | 3.85 | Do. |
| 14. | Hindustan Machine Tools Ltd. | 23.87 | Do. |
| 15. | Instrumentation Ltd. | 2.74 | Do. |

| Sl. No. | Undertaking | Total investment as on 31-3-66 | Administrative Ministry concerned |
|---|---|--------------------------------|---|
| (Rs. in crores) | | | |
| 16. | Mining and Allied Machinery Corporation Ltd. | 34.50 | Industrial Development and Company Affairs. |
| 17. | National Instruments Ltd. | 2.27 | Do. |
| 18. | Triveni Structurals Ltd. | 0.10 | Do. |
| 19. | National Coal Development Corporation Ltd. | 128.18 | Steel, Mines and Metals. |
| 20. | National Mineral Development Corporation Ltd. | 24.49 | Do. |
| 21. | Neyveli Lignite Corporation Ltd. | 144.56 | Do. |
| 22. | Bharat Aluminium Co. Ltd. | 0.34 | Do. |
| 23. | Hindustan Zinc Ltd. | 1.38 | Do. |
| 24. | Hindustan Teleprinters Ltd. | 3.27 | Deptt. of Communications. |
| 25. | Indian Telephone Industries Ltd. | 8.02 | Do. |
| <i>(iii) Petroleum and Chemicals and Processing</i> | | | |
| 26. | Hindustan Photo Films Manufacturing Co. Ltd. | 9.50 | Industrial Development and Company Affairs. |
| 27. | Hindustan Salts Ltd. Sambhar Salts Ltd. (SUB) | 1.79 | Do. |
| 28. | National Newsprint and Paper Mills Ltd. | 5.28 | Do. |
| 29. | Cochin Refineries Ltd. | 18.07 | Petroleum and Chemicals. |
| 30. | Fertilizer Corporation of India Ltd. | 104.00 | Do. |
| 31. | Fertilizers and Chemicals Travancore Ltd. | 18.42 | Do. |
| 32. | Hindustan Antibiotics Ltd. | 2.47 | Do. |
| 33. | Hindustan Insecticides Ltd. | 1.33 | Do. |
| 34. | Hindustan Organic Chemicals Ltd. | 2.19 | Petroleum and Chemicals. |
| 35. | Indian Drugs and Pharmaceuticals Ltd. | 34.78 | Do. |
| 36. | Indian Oil Corporation Ltd. | 143.27 | Do. |

| Sl. No. | Undertaking | Total investment as on 31-3-66 | Administrative Ministry concerned |
|---|--|--------------------------------|--|
| (Rs. in crores) | | | |
| 37. | Pyrites and Chemicals Development Company Ltd. | 1.16 | Petroleum and Chemicals. |
| 38. | Madras Refineries Ltd. | 0.58 | Do. |
| 39. | Indian Rare Earths Ltd. | 1.50 | Deptt. of Atomic Energy. |
| <i>(iv) Transport, Aviation and Shipping</i> | | | |
| 40. | Air India (S) | 35.84 | Tourism and Civil Aviation. |
| 41. | Central Road Transport Corporation Ltd. | 0.90 | Transport and Shipping. |
| 42. | Indian Airlines Corporation (S) | 31.18 | Tourism and Civil Aviation. |
| 43. | Mogul Line Ltd. | 1.59 | Transport and Shipping. |
| 44. | Shipping Corporation of India Ltd. | 40.29 | Do. |
| B. COMMERCIAL AND TRADING INSTITUTIONS | | | |
| 45. | Minerals and Metals Trading Corporation of India Ltd. | 7.46 | Commerce. |
| 46. | State Trading Corporation of India Ltd. [Handicrafts and Handloom Export Corporation of India Ltd. (SUB).] | 2.03 | Do. |
| 47. | Food Corporation of India (S) | 39.00 | Food, Agriculture, Community Development and Co-operation. |
| 48. | National Seeds Corporation Ltd. | 0.90 | Do. |
| 49. | Central Fisheries Corporation Ltd. | 0.33 | Do. |
| 50. | Modern Bakeries Ltd. | N.A. | Do. |
| 51. | Cement Corporation of India Ltd. | 0.47 | Industrial Development and Company Affairs. |

| Sl. No. | Undertaking | Total investment as on 31-3-66 | Administrative Ministry concerned |
|--|--|--------------------------------|--|
| (Rs. in crores) | | | |
| 52. | Hindustan Steel Works Construction Ltd. . | 0.05 | Steel, Mines and Metals. |
| 53. | National Projects Construction Corporation Ltd. | 4.59 | Irrigation and Power. |
| 54. | Engineers India Ltd. | 0.19 | Petroleum and Chemicals. |
| 55. | National Buildings Construction Corporation Ltd. | 2.69 | Works, Housing and Supply. |
| 56. | Hindustan Housing Factory Ltd. | 0.90 | Do. |
| 57. | Hindustan Latex Ltd. | N.A. | Health and Family Planning. |
| C. PROMOTIONAL AND DEVELOPMENTAL UNDERTAKINGS | | | |
| 58. | National Research Development Corporation Ltd. | 0.68 | Education. |
| 59. | Central Warehousing Corporation (S) . | 14.10 | Food, Agriculture, Community Development and Co-operation. |
| 60. | National Industrial Development Corporation Ltd. | 11.08 | Industrial Development and Company Affairs. |
| 61. | National Small Industries Corporation Ltd. . | 14.09 | Do. |
| 62. | Rehabilitation Housing Corporation Ltd. . | 0.06 | Labour, Employment and Rehabilitation. |
| 63. | Rehabilitation Industries Corporation Ltd. . | 3.23 | Do. |
| 64. | Oil and Natural Gas Commission (S) . | 133.34 | Petroleum and Chemicals. |
| D. HOTELS AND TOURISM | | | |
| 65. | India Tourism Development Corporation Ltd. | 0.30** | Tourism and Civil Aviation. |
| 66. | Ashoka Hotels Ltd. | 1.77 | Works, Housing and Supply. |
| 67. | Janpath Hotels Ltd. | 0.27 | Do. |

| Sl. No. | Undertaking | Total investment as on 31-3-66 | Administrative Ministry concerned |
|----------------------------------|--|--------------------------------|-----------------------------------|
| (Rs. in crores) | | | |
| E. FINANCIAL INSTITUTIONS | | | |
| 68. | Export Credit and Guarantee Corporation Ltd. | 1.00††† | Commerce. |
| 69. | Life Insurance Corporation of India (S) | 5.00 | Finance. |
| 70. | Film Finance Corporation Ltd. | 0.90 | Information and Broadcasting. |
| GRAND TOTAL | | Rs. 2415 crores | |

*Figures as at the end of September, 1965.

**Represents investments made in the India Tourism Corporation, Hotel Corporation and India Tourism Transport Undertaking which have been merged into the new company.

†††Figures as at the end of December, 1965.

NA—Not available.

S—Statutory Corporation.

SUB —Subsidiary Government Company.

All undertakings not marked with an 'S' are Government companies under the Companies Act.

II.—State Governments Undertakings

| Sl. No. | Name of Undertaking |
|---------|---------------------|
|---------|---------------------|

Andhra Pradesh

1. Andhra Pradesh State Warehousing Corporation, Hyderabad (S).
2. Andhra Pradesh State Electricity Board, Hyderabad (S).
3. Andhra Pradesh State Road Transport Corporation, Hyderabad (S).
4. Andhra Pradesh Financial Corporation, Hyderabad (S).
5. Andhra Pradesh Industrial Development Corporation Ltd., Hyderabad.
6. Andhra Pradesh Mining Corporation, Ltd., Hyderabad.
7. Andhra Pradesh Small Scale Industries Development Corporation Ltd., Hyderabad.
8. Hyderabad Chemicals and Fertilizers Ltd., Hyderabad.
9. Nizam Sugar Factory Ltd.
10. Singareni Collieries Co. Ltd., Kottagudam.

Assam

1. Assam State Warehousing Corporation, Shillong (S).
2. Assam State Electricity Board, Shillong (S).
3. Assam Financial Corporation, Shillong (S).
4. Assam Gas Company Ltd., Shillong.
5. Assam Government Construction Corporation Ltd., Shillong.
6. Assam Government Marketing Corporation Ltd., Gauhati.
7. Assam Small Industries Development Corporation Ltd., Gauhati.
8. Assam Spun Silk Mills Ltd., Nowgong.
9. Assam State Mineral Development Corporation Ltd., Shillong.
10. Assam Tanneries Ltd., Gauhati.
11. Assam Cements Ltd., Shillong.
12. Assam Major Industrial Enterprises Corporation Ltd., Shillong.

| Sl. No. | Name of Undertaking |
|---------|---------------------|
|---------|---------------------|

Bihar

1. Bihar State Warehousing Corporation, Patna (S).
2. Bihar State Electricity Board, Patna (S).
3. Bihar State Road Transport Corporation, Patna (S).
4. Bihar State Financial Corporation, Patna (S).
5. Bihar Mica Syndicate Ltd., Kodarma.
6. Bihar State Industrial Development Corporation Ltd., Patna.
7. Bihar State Small Industries Corporation Ltd., Patna.
8. Bihar State Text Book Publishing Corporation Ltd., Patna.

Gujarat

1. Gujarat State Warehousing Corporation, Ahmedabad (S).
2. Gujarat Electricity Board, Baroda (S).
3. Gujarat State Road Transport Corporation, Ahmedabad (S).
4. Gujarat State Financial Corporation, Ahmedabad (S).
5. Bhavnagar Public Dairy Ltd., Bhavnagar.
6. Gujarat Mineral Development Corporation Ltd., Ahmedabad.
7. Gujarat State Fertilizers Co. Ltd., Baroda.

Kerala

1. Kerala State Warehousing Corporation, Ernakulam (S).
 2. Kerala State Electricity Board, Trivandrum (S).
 3. Kerala State Road Transport Corporation, Trivandrum (S).
 4. Kerala Financial Corporation, Ernakulam (S).
 5. Kerala Ceramics Ltd., Kundara.
 6. Forest Industries (Travancore) Ltd., Alwaye.
 7. Kerala Premo Pipe Factory Ltd., Trivandrum.
 8. Pallathra Bricks and Tiles Ltd., Thirunallore.
 9. Plantation Corporation of Kerala Ltd., Kottayam.
 10. Traco Cable Company Ltd., Ernakulam.
 11. Travancore Cochin Chemicals Ltd., Ernakulam.
 12. Travancore Plywood Industries Ltd., Quilon.
-

| Sl. No. | Name of Undertaking |
|---------|---------------------|
|---------|---------------------|

Kerala—contd.

13. Travancore Titanium Products Ltd., Trivandrum.
14. Trivandrum Rubber Works Ltd., Trivandrum.
15. Trivandrum Spinning Mills Ltd., Trivandrum.
16. Kerala Soap & Oils Ltd., Calicut.
17. Kerala State Industrial Development Corporation Ltd., Trivandrum.
18. Kerala Small Industries Corporation Ltd., Trivandrum.
19. Kerala Tourist and Handicrafts Corporation Ltd., Trivandrum.
20. Kerala Electrical and Allied Engineering Co. Ltd., Kundara.
21. Kerala Spinners Ltd.,

Madras

1. Madras State Warehousing Corporation, Madras (S).
2. Madras State Electricity Board, Madras (S).
3. Banana and Fruit Development Corporation Ltd., Madras.
4. Madras Industrial Investment Corporation Ltd., Madras.
5. Madras State Small Scale Industries Corporation Ltd., Madras.
6. Madras State Industrial Development Corporation Ltd., Madras.

Mysore

1. Mysore State Warehousing Corporation, Bangalore (S).
2. Mysore State Electricity Board, Bangalore (S).
3. Mysore State Road Transport Corporation, Bangalore (S).
4. Mysore State Financial Corporation, Bangalore (S).
5. Bangalore Ex-Servicemen's Transport Company Ltd., Bangalore.
6. Hutti Gold Mines Company Ltd., Bangalore.
7. Mahabob Shahi Kulburga Mills Ltd., Gulburga.
8. Mysore Chrome Tanning Company Ltd., Bangalore.
9. Mysore Fruit Products Ltd., Bangalore.
10. Mysore Iron & Steel Ltd., Bhadravati.
11. Mysore Lac and Paint Works Ltd., Mysore.
12. Mysore Small Industries Corporation Ltd., Bangalore.
13. Mysore State Handicrafts Development Corporation Ltd., Bangalore.

| Sl. No. | Name of Undertaking |
|-----------------------|---|
| <i>Mysore—contd.</i> | |
| 14. | Mysore State Industrial Investment and Development Corporation Ltd., Bangalore. |
| 15. | Mysore Sugar Company Ltd., Bangalore. |
| 16. | Radio & Electricals Manufacturing Company Ltd., Bangalore. |
| 17. | N.G.E.F. Ltd., Bangalore. |
| 18. | Mysore Sales International Ltd., Bangalore. |
| 19. | Mysore Cosmetics, Bangalore. |
| 20. | Tungabhadra Steel Products Ltd., Tungabhadra Dam. |
| <i>Maharashtra</i> | |
| 1. | Maharashtra State Warehousing Corporation, Poona (S). |
| 2. | Maharashtra State Electricity Board, Bombay (S). |
| 3. | Maharashtra State Road Transport Corporation, Bombay (S). |
| 4. | Maharashtra State Financial Corporation, Bombay (S). |
| 5. | Gondwana Paints & Minerals Ltd., Nagpur. |
| 6. | Janjira Bank Ltd., Janjira. |
| 7. | Maharashtra Small Scale Industries Development Corporation Ltd., Bombay. |
| 8. | Maharashtra Agro-Industries Development Corporation Ltd., Bombay. |
| 9. | Maharashtra State Farming Corporation Ltd., Bombay. |
| 10. | Maharashtra State Industrial & Investment Corporation, Bombay. |
| 11. | Provident Investment Co. Ltd., Bombay. |
| <i>Madhya Pradesh</i> | |
| 1. | M.P. State Warehousing Corporation, Indore (S). |
| 2. | M.P. State Electricity Board, Jabalpur (S). |
| 3. | M.P. State Road Transport Corporation, Bhopal (S). |
| 4. | M.P. Financial Corporation, Indore. |
| 5. | Madhya Pradesh Laghu Udyog Nigam Ltd., Bhopal. |
| 6. | Madhya Pradesh State Industries Corporation Ltd., Indore. |
| 7. | Madhya Pradesh State Mining Corporation Ltd., Jabalpur. |
| 8. | M.P. Audyogic Vikas Nigam Ltd., Bhopal. |

| Sl. No. | Name of Undertaking |
|---------|---------------------|
|---------|---------------------|

Orissa

1. Orissa State Warehousing Corporation, Bhubaneswar (S).
2. Orissa State Electricity Board, Bhubaneswar (S).
3. Orissa State Road Transport Corporation, Cuttack (S).
4. Orissa State Financial Corporation, Cuttack (S).
5. Balanga Iron Works Ltd., Bala.
6. Chilka Cashew Manufacturing Co. Ltd., Balugaon.
7. Cuttack Iron & Steel Products Ltd., Cuttack.
8. Eastern Aquatic Products (India) Ltd., Cuttack.
9. Gajapati Steel Industries Ltd., Parlakhemundi.
10. Hansanath Ceramic Industries Ltd., Barabati.
11. Industrial Development Corporation of Orissa Ltd., Bhubaneswar.
12. Jagannath Chemical and Pharmaceutical Works Ltd., Cuttack.
13. Kalinga Foundry Ltd., Cuttack.
14. Kahnga Steel & Wire Products Ltd., Cuttack.
15. Konark Processing Works Ltd., Cuttack.
16. Madhusudan Chemical Industries Ltd., Cuttack.
17. East Coast Salt and Chemical Industries Ltd., Bhubaneswar.
18. Manufacture Electio Ltd., Cuttack.
19. Myurbhanj Textiles Ltd., Myurbhanj.
20. Modern Electronics Ltd., Cuttack.
21. Modern Malleable Casting Company Ltd., Berhampur.
22. Monorma Foundry Works, Rairangpur.
23. Orissa Agrico Ltd., Cuttack.
24. Orissa Board Mills Ltd., Cuttack.
25. Orissa Boat Builders Ltd., Mandapara.
26. Orissa Concrete Products Ltd., Bhubaneswar.
27. Orissa Construction Corporation Ltd., Bhubaneswar.
28. Orissa Electricals Manufacturers Ltd., Cuttack.
29. Orissa Fisheries Development Corporation Ltd., Cuttack.
30. Orissa Forest Corporation Ltd., Cuttack.

| Sl. No. | Name of Undertaking |
|---------|---------------------|
|---------|---------------------|

Orissa—contd.

31. Orissa Foundry Co. Ltd., Berhampur.
32. Orissa Instruments Ltd., Cuttack.
33. Orissa Mining Corporation Ltd., Bhubaneswar.
34. Orissa Road Transport Company Ltd., Berhampur.
35. Orissa Small Industries Corporation Ltd., Cuttack.
36. Orissa Sports Manufacturers & Fabricators Ltd., Cuttack.
37. Orissa Tiles Ltd., Cuttack.
38. Orissa State Commercial Transport Corporation Ltd., Cuttack.
39. Orissa Timber Products Ltd., Rourkela.
40. Orissa Trunk and Enamel Works Ltd., Cuttack.
41. Orissa Wood Products Ltd., Cuttack.
42. Premier Bolts & Nuts Company Ltd., Cuttack.
43. Rourkela Fabrications Ltd., Rourkela.
44. Spark Battery Manufacturing Works Ltd., Cuttack.
45. Utkal Foundry & Engineering Company Ltd., Samalpur.
46. Utkal Fruit Products Ltd., Meramendali.
47. Utkal Metal Products Ltd., Berhampur.

*Punjab**

1. Punjab State Warehousing Corporation, Chandigarh (S).
2. Punjab State Electricity Board, Patiala (S).
3. Pepsu Road Transport Corporation, Patiala (S).
4. Punjab Financial Corporation, Chandigarh (S).
5. Land Development and Seeds Corporation Ltd., Chandigarh.
6. Punjab Steel & Alloy Castings Ltd., Chandigarh.
7. Punjab Export Corporation Ltd., Chandigarh.
8. Punjab Poultry Corporation Ltd., Chandigarh.
9. Punjab State Small Industries Corporation Ltd., Chandigarh.
10. Punjab Dairy Development Corporation, Chandigarh.
11. Punjab State Industrial Development Corporation Ltd., Chandigarh.
12. Punjab State Irons Ltd., Chandigarh.
13. Punjab Agro. Industrial Corporation Ltd., Chandigarh.

*As before the division of the erstwhile State.

| Sl. No. | Name of Undertaking |
|------------|---------------------|
|------------|---------------------|

Rajasthan

1. Rajasthan State Warehousing Corporation, Jaipur (S).
2. Rajasthan State Electricity Board, Jaipur (S).
3. Rajasthan State Road Transport Corporation, Jaipur (S).
4. Rajasthan Financial Corporation, Jaipur (S).
5. Ganganagar Sugar Mills Ltd., Jaipur.
6. Hi-tech Precision Glass Ltd., Dholpur.
7. Rajasthan Small Industries Corporation Ltd., Jaipur.
8. Rajasthan State Hotels Corporation Ltd., Jaipur.

Uttar Pradesh

1. U.P. State Warehousing Corporation, Lucknow (S).
2. U.P. State Electricity Board, Lucknow (S).
3. U.P. Financial Corporation, Kanpur (S).
4. Indian Bobbin Company Ltd., Bareilly.
5. Indian Turpentine and Rosin Co. Ltd., Bareilly.
6. U.P. Export Corporation, Kanpur.
7. U.P. State Industrial Corporation Ltd., Kanpur.
8. Uttar Pradesh Small Industries Corporation Ltd., Kanpur.
9. Mohammadabad People's Tannery Ltd., Farrukhabad.

West Bengal

1. West Bengal State Warehousing Corporation, Calcutta (S).
 2. West Bengal State Electricity Board, Calcutta (S).
 3. Calcutta State Transport Corporation, Calcutta (S).
 4. North Bengal State Transport Corporation, Cooch-Bihar (S).
 5. West Bengal Financial Corporation, Calcutta (S).
 6. Durgapur Chemicals Ltd., Calcutta.
 7. Durgapur Projects Ltd., Calcutta.
 8. Electro Medical & Allied Industries Ltd., Calcutta.
 9. Kalyani Spinning Mills Ltd., Calcutta.
 10. West Bengal Small Industries Corporation Ltd., Calcutta.
 11. State Fisheries Development Corporation Ltd., Calcutta.
-

| Sl. No. | Name of Undertaking |
|------------|---------------------|
|------------|---------------------|

Jammu & Kashmir

1. Jammu & Kashmir State Financial Corporation, Srinagar (S).
2. Jammu & Kashmir Bank Ltd., Srinagar.

Himachal Pradesh

1. Nahan Foundry Ltd., Nahan.
2. Mandi Kulu Road Transport Corporation, Mandi (S).

Tripura

1. Tripura Small Industries Corporation Ltd., Agartala.

Manipur

1. Manipur State Bank Ltd., Manipur.
-

Legend S—Statutory Corporation

NOTE.—The above list is not exhaustive.

POWERS RESERVED TO GOVERNMENT IN RESPECT OF THE PUBLIC ENTERPRISES (STATUTORY CORPORATIONS AND GOVERNMENT COMPANIES) OF THE GOVERNMENT OF INDIA.

Part A

Powers reserved to Central Government or matters subject to Government's approval

Exceptions, if any

- | | | |
|----|---|---|
| 1. | Appointment of Chairman and Members of the Corporation/Board of Directors. | In undertakings having private equity participation, all members are not appointed by the Central Government e.g., in FACT and Cochin Refineries. |
| 2. | Appointments to senior posts above a certain salary level and the post of General Manager and FA & CAO. | Certain other posts also require Government approval in Air India and the IAC |
| 3. | Sanction of capital expenditure above a certain limit | .. |
| 4. | Issue of directives | There are some exceptions like Cochin Refineries, FACT, Mogul Line, Central Road Transport Corporation, Praga Tools and Indian Rare Earths. |
| 5. | Any important matter reserved by the Chairman for the approval of the Government. | A specific provision to this effect does not exist in the statutes of the Central Warehousing Corporation and the LIC. |
| 6. | Appointment of Auditors | .. |
| 7. | Borrowing, declaration of dividend, increase or decrease of capital and allotment/transfer or consolidation/sub-division of shares. | In regard to borrowing, Cochin Refineries is an exception. For declaration of dividends, Govt. approval is not required in some cases like HSL, Bokaro Steel Ltd., and Cochin Refineries. |
| 8. | Negotiations and contracts with foreign parties | .. |

Powers reserved to Central Government or matters subject to Government's approval

Exceptions, if any

9. Sale, lease or disposal of undertaking and formation of subsidiary companies, etc.
10. Investment of moneys in securities and creation of provident fund, reserves and special funds. There are certain exceptions like IOC, HSL and HAL.
11. Grant of bonus/*ex-gratia* payment or commission to staff Government approval is required in the case of a few undertakings only like HAL.
12. Delegation of powers to Chairman, Managing Director, FA & CAO etc., or approval of such delegation proposed by the Board. Most of the undertakings are exceptions to this as would appear from Part B of this annexure.

The statement below lists undertaking-wise the powers reserved to Government with regard to—

- (i) Creation of, and appointments to, certain senior posts;
 (ii) Sanctioning of capital expenditure above a certain level; and
 (iii) Delegation of authority to the senior executives of the enterprise, or approval of such delegation proposed by the Board.

| Name of the Undertaking | Power to create and make appointments to posts carrying a monthly salary of or above the level of— | Power* to sanction capital expenditure above the level of— | Power** to delegate authority to senior executive or approval of such delegations proposed by the Board |
|--|--|--|---|
| 1. Hindustan Steel Ltd. | Rs. 2500 | Rs. 50 lakhs | Board require the approval of Government in delegating powers to the General Manager, Managers or the FA & CAO. |
| 2. Bokaro Steel Ltd. | Rs. 2500 | Rs. 50 lakhs | Do. |
| 3. Hindustan Steel Works Construction Ltd. | Rs. 2250 | Rs. 20 lakhs | Board require the approval of Government in delegating powers to the FA & CAO. |
| 4. Heavy Engineering Corporation Ltd. | Rs. 2250 | Rs. 50 lakhs | .. |
| 5. Mining and Allied Machinery Corporation Ltd | Rs. 2250 | Rs. 50 lakhs | .. |
| 6. Hindustan Machine Tools Ltd. | Rs. 2250 | Rs. 25 lakhs | .. |
| 7. Heavy Electricals (India) Ltd. | Rs. 2250 | Rs. 50 lakhs | .. |
| 8. Bharat Heavy Electricals Ltd. | Rs. 2250 | Rs. 50 lakhs | .. |

| Name of the Undertaking | Power to create and make appointments to posts carrying a monthly salary of— or above the level of— | Power* to sanction capital expenditure above the level of— | Power** to delegate authority to senior executive or approval of such delegation proposed by the Board |
|---|---|--|---|
| 9. Hindustan Cables Ltd. | Rs. 2250 | Rs. 25 lakhs | .. |
| 10. Instrumentation Ltd. | Rs. 2250 | Rs. 50 lakhs | Both Government and the Board can delegate powers to the Chairman, Managing Director, Resident Director, General Manager or FA & CAO. |
| 11. National Instruments Ltd. | Rs. 2250 | Rs. 10 lakhs | .. |
| 12. Indian Telephone Industries Ltd. | Rs. 2000 | Rs. 15 lakhs | .. |
| 13. Hindustan Teleprinters Ltd. | Rs. 2000 | Rs. 15 lakhs | .. |
| 14. National Coal Development Corporation Ltd. | Rs. 2250 | Rs. 40 lakhs | .. |
| 15. Neyveli Lignite Corporation Ltd. | Rs. 2250 | Rs. 20 lakhs | .. |
| 16. National Mineral Development Corporation Ltd. | Rs. 2250 | Rs. 10 lakhs | .. |
| 17. Pyrites and Chemicals Development Co. Ltd. | Rs. 2250 | Rs. 10 lakhs | Powers to the Chairman, Managing Director, General Manager or Manager can be delegated by the Government. In the case of General Manager, Manager or FA & CAO powers can be delegated by the Board also but with Government approval. |
| 18. Cement Corporation of India Ltd. | Rs. 2250 | Rs. 50 lakhs | Board require the approval of Government in delegating powers to the General Manager, Manager or FA & CAO. |

| | | | | | |
|-----|--|----------|--------------|----|---|
| 19. | Indian Oil Corporation Ltd. | Rs. 2250 | Rs. 50 lakhs | .. | |
| 20. | Oil and Natural Gas Commission (Statutory) | Rs. 2250 | Rs. 50 lakhs | .. | |
| 21. | Cochin Refineries Ltd. | Rs. 2350 | Rs. 50 lakhs | .. | |
| 22. | Fertilizer Corporation of India Ltd. | Rs. 2250 | Rs. 50 lakhs | .. | |
| 23. | Fertilizers and Chemicals Travancore Ltd. | Rs. 2250 | Rs. 40 lakhs | .. | |
| 24. | Hindustan Organic Chemicals Ltd. | Rs. 2250 | Rs. 50 lakhs | .. | Powers to the Chairman, Executive Director, General Manager or Manager can be delegated by the Government. In the case of General Manager, Manager or FA & CAO powers can be delegated by the Board but with Government approval. |
| 25. | Hindustan Photo Films Manufacturing Co. Ltd. | Rs. 2250 | Rs. 25 lakhs | .. | Power to the Chairman, Managing Director, Executive Director, General Manager or Manager can be delegated by the Government. In the case of General Manager, Manager or FA & CAO, power can be delegated by the Board but with Government approval. |
| 26. | National Newsprint & Paper Mills Ltd. | Rs. 2250 | Rs. 25 lakhs | .. | |
| 27. | Hindustan Salts Ltd. | Rs. 2250 | Rs. 10 lakhs | .. | |
| 28. | Hindustan Insecticides Ltd. | Rs. 2250 | Rs. 10 lakhs | .. | |
| 29. | Indian Drugs & Pharmaceuticals Ltd. | Rs. 2250 | Rs. 50 lakhs | .. | Both Government and the Board can delegate powers to the Chairman, Managing Director, Resident Director, General Manager or FA & CAO. |
| 30. | Hindustan Antibiotics Ltd. | Rs. 2250 | Rs. 25 lakhs | .. | |
| 31. | Hindustan Aeronautics Ltd. | Rs. 2250 | Rs. 30 lakhs | .. | Power to the Chairman, Managing Director & General Manager can be delegated by the Government. |

| Name of the Undertaking | Power to create and make appointments to posts carrying a monthly salary of or above the level of— | Power* to sanction capital expenditure above the level of— | Power** to delegate authority to senior executive or approval of such delegations proposed by the Board |
|---|--|--|---|
| 32. Bharat Earth Movers Ltd. | Rs. 2250 | Rs. 30 lakhs | Power to the Chairman, Managing Director & General Manager can be delegated by the Government |
| 33. Garden Reach Workshops Ltd. | Rs. 2250 | Rs. 20 lakhs | Do. |
| 34. Mazagon Dock Ltd. | Rs. 2250 | Rs. 20 lakhs | Do. |
| 35. Bharat Electronics Ltd. | Rs. 2000 | Rs. 10 lakhs | .. |
| 36. Praga Tools Ltd. | Rs. 2250 | Rs. 10 lakhs | .. |
| 37. Indian Rare Earths Ltd. | Rs. 2250 | .. | .. |
| 38. Indian Airlines Corporation (Statutory) | Posts requiring Govt. approval have been specified in the Act/Rules e.g. GM, Assistant GM, Financial Controller and selected heads of Departments. | Rs. 15 lakhs | .. |
| 39. Air India (Statutory) | Posts requiring Govt. approval have been specified in the Act/Rules e.g. GM, Asstt. GM, Financial Controller & selected heads of Departments. | Rs. 15 lakhs | .. |



| | | | | |
|-----|---|-------------------------|---|---|
| 40. | Shipping Corporation of India Ltd. | Rs. 2250 | Rs. 25 lakhs | .. |
| 41. | Hindustan Shipyard Ltd. | Rs. 2000 | Rs. 20 lakhs | .. |
| 42. | Mogul Line Ltd. | Rs. 2250 | Rs. 10 lakhs | .. |
| 43. | Central Road Transport Corporation Ltd. | Rs. 2250 | Rs. 20 lakhs | .. |
| 44. | Life Insurance Corporation of India (Statutory) | No. specific provision. | .. | .. |
| 45. | Central Warehousing Corporation (Statutory) | No. specific provision. | No. specific provision (Board has full powers within the Budget allotment). | .. |
| 46. | Food Corporation of India (Statutory) | No. specific provision. | .. | .. |
| 47. | State Trading Corporation of India Ltd. | Rs. 2250 | Rs. 10 lakhs | .. |
| 48. | Minerals & Metals Trading Corporation of India Ltd. | Rs. 2250 | Rs. 10 lakhs | .. |
| 49. | National Seeds Corporation Ltd. | Rs. 2000 | Rs. 40 lakhs | Board require the approval of Government in delegating powers to the Managing Director, General Manager, Manager or the FA&CAO. |
| 50. | National Projects Construction Corporation Ltd. | Rs. 2250 | Rs. 10 lakhs | Government are to determine the powers of the F.A. |
| 51. | National Buildings Construction Corporation Ltd. | Rs. 2250 | Rs. 25 lakhs | .. |
| 52. | Hindustan Housing Factory | Rs. 2250 | Rs. 5 lakhs | .. |
| 53. | National Small Industries Corporation Ltd. | Rs. 2250 | .. | Government can entrust power exercisable by the Board to Chairman, Managing Director and/or Manager. |

| Name of the Undertaking | Power to create and make appointments to posts carrying a monthly salary of or above the level of— | Power* to sanction capital expenditure above the level of— | Power** to delegate authority to senior executive or approve of such delegations proposed by the Board |
|--|--|--|---|
| 54. National Industrial Development Corporation Ltd. | Rs. 2250 | Rs. 10 lakhs | .. |
| 55. Rehabilitation Industries Corporation Ltd. | Rs. 2250 | Rs. 40 lakhs | Government can entrust powers exercisable by the Board to General Manager, Manager and/or FA&CAO. |
| 56. Film Finance Corporation Ltd. | Rs. 2000 | Rs. 10 lakhs | Government can entrust powers exercisable by the Board to General Manager, Technical Adviser and/or FA&CAO. |
| 57. Export Credit & Guarantee Corporation Ltd. | Rs. 2250 | .. | .. |
| 58. National Research Development Corporation Ltd. | Rs. 2000 | Rs. 5 lakhs | .. |
| 59. India Tourism Development Corporation Ltd. | Rs. 2250 | .. | .. |
| 60. Ashoka Hotels Ltd. | No specific provision. | .. | .. |
| 61. Janpath Hotels Ltd. | Rs. 2250 | Rs. 1 lakh | .. |

*In cases where DPRs have been prepared with estimates of the different component parts of the project, and such reports have been approved by the Government the boards of public undertakings have to go up to the Government only in cases where there is an upward variation of more than 10% in the approved estimates.

**Where no entry has been made against an undertaking it means the boards have full powers in this respect and no powers have been reserved to Government.

Source : Information compiled from the data available in Articles of Association of Government Companies, Acts of Statutory Corporations and replies furnished to the Questionnaire.

FUNCTIONS OF THE BUREAU PUBLIC ENTERPRISES

The administrative Ministries will continue to look after the public enterprises under their purview. The Bureau of Public Enterprises is primarily to function as a service and consultancy agency for the public enterprises and in a similar manner to assist the controlling Ministries and the Finance Ministry in exercising a more expert supervision over the planning and setting up of projects in the public sector and the working of these enterprises.

As broadly indicated in the organizational chart at Annexure IV, the functions that should be entrusted to the Bureau are indicated below under four divisions:

I. TECHNICAL DIVISION

According to work requirements, the work of this division could be further subdivided into two groups, namely, (i) planning and construction, and (ii) production.

Planning of Projects :

- (i) To assist the administrative Ministries in setting up the pilot committee consisting of the representatives of the DGTD, Finance Ministry, Planning Commission and other agencies to have a look at the preliminary plan formulation.
- (ii) To assist the administrative Ministries in arranging collective and concurrent scrutiny of the feasibility study/DPR in the Government.
- (iii) To assist the public enterprises in setting up organisations for conducting demand survey and to assist in the assessment of demand by the agencies concerned in the Government and the enterprises.
- (iv) To assist projects in the adoption of modern net-work techniques of planning.
- (v) To also give expert advice on proposals for capital funds received from the projects enabling a more proper and expert appreciation of the case in the Finance Ministry.
- (vi) To suggest utilization of indigenous capacity and consultancy service wherever feasible on the basis of information maintained in the general management division and to tender advice in cases submitted to the Negotiating Committee and the Foreign Agreements Committee.

Construction :

- (i) To assist, in cooperation with the proposed Directorate of Construction (Ministry of W & H), in suggesting economies in construction and developing norms, specifications, and standard designs of construction for factories, administrative buildings and townships.
- (ii) To evolve norms or standards of amenities for townships and factory areas with a view to combining maximum economies with reasonable standards of comfort.
- (iii) To review the execution of new projects and process information for adequately watching progress of construction and maintaining a Project Information Room for the purpose.
- (iv) To assist the project, in cooperation with the proposed Directorate of Construction (Ministry of W & H), in adopting modern net-work techniques for better construction management and to assist the project with model forms of contracts and information about the performance capabilities of contractors.
- (v) To compile and disseminate information regarding surplus construction engineering personnel and construction equipment lying idle with completed projects to facilitate their rational and successive utilization on new projects.

Production :

- (i) To undertake studies in cost reduction, bottlenecks in transport, investment in overheads etc.
- (ii) To help the enterprises to locate sources of supply of raw material or components in scarce supply.
- (iii) To arrange for consultancy in such specialised fields as industrial engineering incentive schemes, production programming etc.

II. FINANCE DIVISION

General Advice :

To advise the enterprises on finance and accounts problems and assist in the adoption of modern techniques of financial management including introduction of standard costing and accounting procedures and preparation of business-type budgets.

Appraisal of Performance :

- (i) To undertake, in cooperation with the Technical Division, appraisal of different aspects of the working of the enterprises for bringing to the notice of the Ministries/enterprises concerned the deficiencies, or defects of coordination to be resolved through appropriate inter-Ministerial committees.
- (ii) To act, more or less, in relation to Government as the internal audit organization functions in relation to the enterprise.

Reports :

- (i) To prepare for presentation to Parliament a consolidated report on the working of Central Government undertakings.
- (ii) To assist the Ministries in making a critical analysis of the financial results of their enterprises.
- (iii) To furnish periodical reports to the Cabinet and Ministries concerned on the working of the public enterprises based on the progress reports received from them.

III. PERSONNEL DIVISION

General Advice : To advise the Government in the formulation of overall personnel policy for public sector undertakings.

Appointments :

- (i) *Board of Directors :* To assist administrative Ministries in the selection of Chairman and members of the Management Boards of public enterprises and maintaining, for the purpose, panels of suitable persons with information of their qualifications and previous experience.
- (ii) *Financial Advisers/Financial Controllers :* To maintain panels of suitable persons for these posts and facilitate consultation between the Ministries concerned and the public enterprises for manning these posts.
- (iii) *New Pool Scheme :* To service the Committee, proposed at para 8.32, for enabling inter-undertaking transfers and the operation of the new pool scheme relating to the encadred managerial and technical posts in the enterprises participating in the scheme.

Personnel Policies : To evolve and review common policies and guidelines in fields like incentives, bonus, reporting on personnel, pay scales, training and broad principles for promotion, retirement benefits, participation of labour in management, other labour matters including welfare amenities and model service rules.

Advising Personnel Units in Undertakings : To advise, on request, personnel units in individual undertakings in evolving correct evaluation system, incentive schemes, personnel reporting systems, cadre development schemes including inter-undertaking transfers, etc.

Manpower Planning : To assist, in cooperation with the Institute of Applied Manpower Research and Government agencies concerned, in the detailed assessment of manpower requirements of public enterprises and to project these requirements to the appropriate planning and training agencies.

Talent Hunting: To assist in developing and locating suitable persons for appointment in public undertakings, including specialists like management accountants, economists, statisticians, industrial engineers, work study and operations research experts, etc.

Training :

- (i) To review training arrangements in the public enterprises and the external training institutes, like the Institutes of Management, with a view to avoid duplication and waste of effort. To arrange common training programmes, where necessary and feasible, and to coordinate the training of personnel sent abroad.
- (ii) To evaluate, in cooperation with the public enterprises, the curricula of training offered by the external training institutes for determining their suitability to the requirements of the public sector.
- (iii) To render assistance to the public enterprises and the external training institutes to establish additional training facilities of requisite depth and quality and tailored specially to the requirements of the public sector with the help of the financial provision envisaged for this purpose in the Fourth Plan.

IV. GENERAL MANAGEMENT DIVISION

We envisage for this division, more or less, the same role as that proposed by the Study Team on the Machinery of Government of India for the Management Consultancy Division. This division should provide the central motivating force for promoting efficiency and productivity in the public enterprises. In this respect, the Bureau should stand in relation to the public enterprises as the Department of Administrative Reforms does in relation to the Ministries and Government Departments.

Identification of Problems : To identify management problems of public enterprises and assist in the formation of study groups including experts in the Government departments as well as management institutes and institutes of specialists for studying these problems and working out solutions for general application.

Advice to Undertakings : To foster growth of management service units within the plants/undertakings and assisting them in evolving suitable methods of reporting and analysis of performance data.

Clearing House of Information : To act as a clearing house of information for the Ministries and agencies of the Government and the public enterprises in respect of the following matters:—

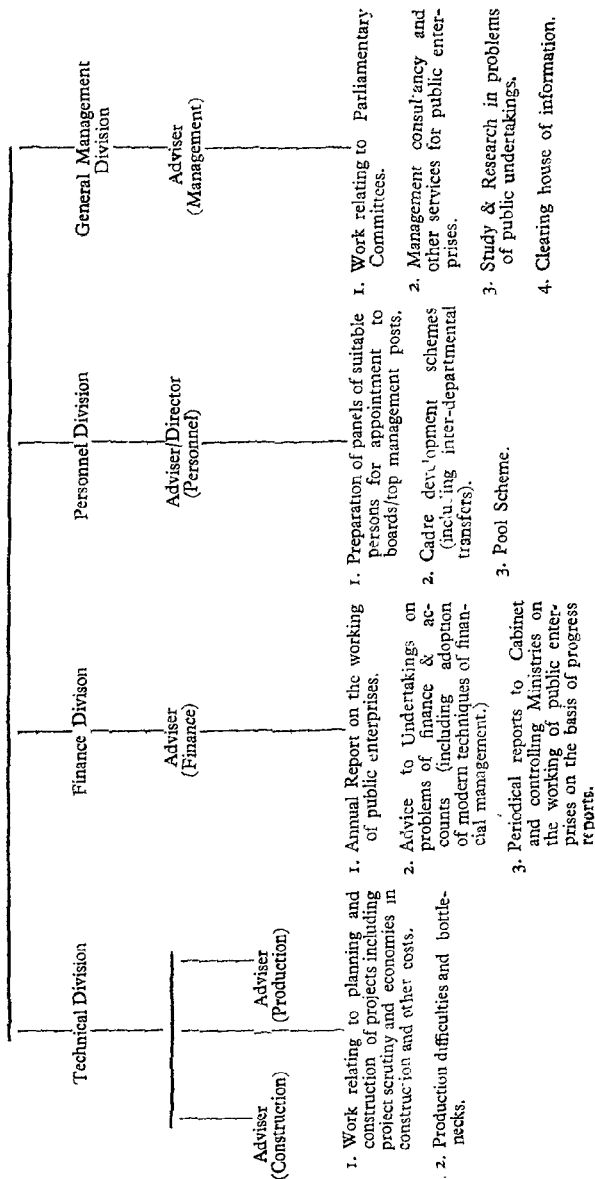
- Organisations structures and patterns within the enterprises.
- Internal management organisation and extent of delegation of powers.
- Principal features of statutes in the case of the public corporations and model Articles of Association in case of the Government companies.
- Design and consultancy organisations within the country.
- Indigenously available capacity in key areas of industry.
- Inventory of surpluses, both existing and likely, of construction engineering personnel and construction equipment.
- Performance capability of contractors of concern to public sector projects, particularly those who have executed works in the public sector.
- Reports of Parliamentary Committees and *ad hoc* committees of experts and the progress of implementation of the accepted recommendations.
- Personnel data required for talent hunting and for facilitating inter-undertaking transfers.

Work relating to the Parliamentary Committee : To coordinate, in the Government, work relating to the examination of the public enterprises by the Committee on Public Undertakings and to process the implementation of the reports of the Committee.

Liaison with the Department of Administrative Reforms : To collaborate with the Department of Administrative Reforms for conducting joint studies and common training programmes in fields like work study, operations research, etc.

ORGANIZATIONAL CHART OF BUREAU OF PUBLIC ENTERPRISES

Director General



STATEMENT SHOWING THE PROPOSED GROUPING OF PUBLIC UNDERTAKINGS OF THE CENTRAL GOVERNMENT UNDER MULTI-UNIT CORPORATION (WHERE SUGGESTED) AND THE ADMINISTRATIVE INDUSTRIES ENTRUSTED WITH THEIR CONTROL

PART I

Public Undertakings in respect of which grouping or change in the administrative Ministry is being suggested:

| Existing undertakings grouped under the proposed multi-unit corporations | The proposed controlling Ministry | Remarks |
|--|-----------------------------------|--|
| 1. <i>Steel Corporation</i> | Steel, Mines & Metals | |
| (i) H.S.L. | | |
| (ii) Bokaro Steel Ltd. | | |
| (iii) Hindustan Steel-works Construction Ltd. | | |
| 2. <i>Coal and Lignite Corporation</i> | Steel, Mines & Metals | |
| (i) N.C.D.C. | | |
| (ii) Neyveli Lignite Corporation | Steel, Mines & Metals | |
| 3. <i>Mining Corporation</i> | | |
| (i) N.M.D.C. | | |
| (ii) Bharat Aluminium Co. | | |
| (iii) Hindustan Zinc Ltd. | | |
| (iv) Cement Corporation of India | | Cement Corporation of India is at present under the control of the Ministry of Industrial Development & Company Affairs. |

4. *Engineering Corporation* **Industrial Development & Company Affairs**

A—Heavy Engineering Wing

- (i) H.E.C.
- (ii) Mining & Allied Machinery Corporation
- (iii) Triveni Structural Ltd.
- (iv) H.M.T.

B—Electricals Wing

- (i) H.E.L.
- (ii) B.H.E.L.

C—Light Engineering Wing

- (i) Hindustan Cables.
- (ii) Instrumentation Ltd.
- (iii) National Instruments Ltd.

5. *Oil Corporation* **Petroleum & Chemic**

- (i) I.O.C.
- (ii) O.N.G.C.
- (iii) Cochin Refineries.
- (iv) Madras Refineries.
- (v) Engineers India Ltd.

Existing undertakings grouped under the proposed multi-unit corporation

The proposed controlling Ministry

Remarks

6. *Fertilizers & Chemicals Corporation* *Petroleum & Chemicals*

A—Fertilizers Wing:

- (i) F.C.I.
- (ii) F.A.C.T.*

B—Chemicals & Processing Wing:

- (i) Hindustan Insecticides
- (ii) Pyrites & Chemicals Development Co.
- (iii) Hindustan Organic Chemicals*
- (iv) Hindustan Photo Films Manufacturing Co.
- (v) Nepa Mills Ltd.*
- (vi) Hindustan Salts (including Sambhar Salts).
- (vii) Hindustan Latex Ltd.

Hindustan Photo Films, Nepa Mills & Hindustan Salts are at present under the control of the Ministry of Industrial Development & Company Affairs and Hindustan Latex under the control of the Ministry of Health & Family Planning.

C—Drugs Wing:

- (i) I.D.P.L.
- (ii) Hindustan Antibiotics Ltd.

7. *Shipping Corporation* *Transport & Shipping*

- (i) Shipping Corporation of India
- (ii) Hindustan Shipyard.
- (iii) Mogul Line Ltd.*

8. *State Trading Corporation* Commerce

(i) S.T.C. (including Handicrafts & Handloom Export Corporation)

(ii) M.M.T.C.

9. *Hotels & Tourism Corporation* Tourism & Civil Aviation

(i) India Tourism Development Corporation.

(ii) Ashoka Hotels, *

(iii) Janpath Hotels.

Ashoka Hotels & Janpath Hotels are at present under the control of the Ministry of Works, Housing & Supply.

*Undertakings marked with an asterisk which have an element of private participation in share capital may continue to retain the company form.

PART II

Public undertakings in respect of which grouping or changes in the controlling ministry is not being suggested

| Name of public undertaking | Controlling Ministry |
|---|--|
| 1. Air India | Tourism & Civil Aviation |
| 2. I.A.C. | Do. |
| 3. L.I.C. | Finance |
| 4. Food Corporation of India | Food, Agriculture, Community Development & Cooperation |
| 5. Central Warehousing Corporation | Do. |
| 6. Central Fisheries Corporation | Do. |
| 7. National Seeds Corporation | Do. |
| 8. Modern Bakeries Ltd. | Do. |
| 9. Central Road Transport Corporation | Transport & Shipping |
| 10. Hindustan Teleprinters | Department of Communications |
| 11. I.T.I. | Do. |
| 12. N.B.C.C. | Works, Housing & Supply |
| 13. Hindustan Housing Factory | Do. |
| 14. N.P.C.C. | Irrigation & Power |
| 15. National Research Development Corporation | Education |
| 16. Rehabilitation Industries Corporation | Labour, Employment & Rehabilitation |
| 17. Rehabilitation Housing Corporation | Do. |

| | Industrial Development & Company Affairs |
|---|--|
| 18. N.S.I.C. | Do. |
| 19. N.I.D.C. | Commerce |
| 20. E.C.G.C. | Information & Broadcasting |
| 21. Film Finance Corporation | Department of Atomic Energy |
| 22. Indian Rare Earths Ltd. | Defence |
| 23. Bharat Earth Movers | Do. |
| 24. Bharat Electronics | Do. |
| 25. Garden Reach Workshops Ltd. | Do. |
| 26. Hindustan Aeronautics | Do. |
| 27. Mazagon Dock Ltd. | Do. |
| 28. Praga Tools Ltd. | Do. |

ANNEXURE VI

(Vide para. 6.4)

DELAYS IN CONSTRUCTION OF FACTORY BUILDINGS AND ITS COMPARISON WITH POSITION PREVAILING IN FOREIGN COUNTRIES AS WELL AS PRIVATE SECTOR IN INDIA (EXTRACTS FROM C.P.U. 8TH REPORT)

| Sl. No. | Undertaking/Project | Actual or anticipated delay in construction/completion of factory buildings & other civil works | | Effect of Delays | Overall Time taken between calling of detailed Project Report and completion/commissioning | | Overall time taken in similar plants in— | | |
|--|---------------------------------|---|--------|---|--|--------|--|---|-------|
| | | Years | Months | | Years | Months | Foreign countries | Private sector in India | |
| | | | | | | | | | Years |
| 1. Neyveli Lignite Corporation Ltd. : | | | | | | | | | |
| | (a) Thermal Plant | 1 | 3 | (i) Delay in Thermal Plant led partly to delay in commissioning of Mining scheme. | 6 | 4 | 2 to 3 years | .. | |
| | (b) Fertilizer Plant | 3 | .. | (ii) Spare plant, machinery and manpower diverted from one unit to another. | 8 | 6 | 4 years. | .. | |
| | (c) Briquetting Plant | 1 | 4 | | 5 | 9 | .. | .. | |
| 2. Fertilizer Corporation of India Ltd. : | | | | | | | | | |
| | (a) Trombay | 2 | 0 | Manpower remained idle | .. | .. | } 3 to 4 years. | .. | |
| | (b) Namrup | 1 | 10 | .. | 6 | 7 | | | |
| | (c) Nangal | .. | 10 | .. | 6 | 0 | | | |
| 3. Indian Oil Corporation Ltd. : | | | | | | | | | |
| | Barauni Refinery | 2 | 0 | Plant, Machinery and manpower remained idle. | 5 | .. | .. | 3 years by ESSO & 4 years by Calcox & Burnmah Shell | |

| | | | | | | | | |
|--|-----|--|----|------------------------------------|----|---------------------------|----|--|
| 4. Hindustan Steel Ltd. : | | | | | | | | |
| (a) Rourkela | Do. | Ranges from 2 months to over 3 years in various units. | .. | .. | .. | .. | .. | .. |
| (b) Durgapur | Do. | 1 year and 2 months | .. | .. | .. | .. | .. | .. |
| (c) Bhilai | Do | Ranges from 8 months to 1 year. | 5 | .. | .. | .. | .. | About 4 years for new works and 2 to 3 years for expansion in U.S.S.R. |
| (d) Alloy Steels Plant | | 1 4 | .. | .. | .. | .. | .. | .. |
| (e) Coal Washery Project | | | .. | 2 to 5 years in various washeries. | .. | 1½ years | .. | .. |
| 5. Heavy Electricals Ltd., Bhopal | | Over two years in certain units. | 4 | 8 | .. | .. | .. | .. |
| 6. Bharat Heavy Electricals Ltd. : | | | | | | | | |
| (a) Hyderabad | .. | 0 10 | .. | 5 0 | .. | 1½ to 2 years in U.S.S.R. | .. | .. |
| Tiruchi | .. | 0 9 | .. | 4 0 | .. | .. | .. | .. |
| 7. Hindustan Photo Films Manufacturing Co., Ltd. | | 2 0 | .. | .. | .. | .. | .. | .. |
| | | About 50% of plant and machinery remained idle. | .. | .. | .. | .. | .. | .. |

***LIST OF INDIAN CONSULTANCY ORGANIZATIONS IN THE PUBLIC AND PRIVATE SECTORS**

Steel and Engineering

Central Engineering and Design Bureau of HSL.
 Bhilai Planning and Development Cell of HSL.
 Heavy Engineering Corporation.
 Heavy Electricals, Bhopal.
 Bharat Heavy Electricals.
 Dastur & Co.
 Kuljian Corporation.
 Utkal Machinery Ltd., Orissa.
 Davy United Engineering Co.
 Head Wrightson India Ltd.
 Indian Iron & Steel Co.
 W. S. Atkins & Partners (India) Ltd.
 Shri Moti Thadani, Bombay.
 M/s. Kocks India Pvt. Limited.
 M/s. Simon-Carves.
 Amin Chand Pyare Lal.
 D. S. Mulla.

Power

Mining and Allied Machinery Corporation.
 Bharat Heavy Electricals.
 Heavy Electricals, Bhopal.
 Central Water & Power Commission.
 Tata-Ebasco.
 Kuljian Corporation.
 W. S. Atkins & Partners.
 Chatterjee & Polk.
 Humphreys & Glasgow (Overseas) Ltd.

Mining and Washeries

National Coal Development Corporation.
 Mining and Allied Machinery Corporation.
 National Mineral Development Corporation.
 Central Engineering & Design Bureau of HSL.
 Neyveli Lignite Corporation.
 Camec, Bombay.
 International Equipment Corporation Ltd. with Sofremines, Paris. Macnally
 Bird & Co.

*This list has been prepared on the basis of information furnished by the Ministry of Industry and the public undertakings and relate to fields relevant to public enterprises. Accordingly, the list excludes consultancy organizations in fields like sugar and textiles.

M/s. Ruhr Consulting G.M.B.H., Nagpur.
 Dorr-Oliver.
 W. S. Atkins & Partners.
 P. N. Nayyar, New Delhi.
 Koppers India Pvt. Ltd.
 Industrial Consulting Bureau Pvt. Ltd.

Chemical and Heavy Chemical Industries

D.C.M. Chemical Works.
 Simon-Carves.
 National Rayon Corpn.
 S. P. Chopra, New Delhi with Lurgi Ecessselschaf.
 M/s Dinker C Chinai, Bombay with M/s. Orezi & Do Noca (Italy).
 Mirch Industries Pvt. Ltd.
 Vitro Engineering Co.
 Chemical & Metallurgical Design Co.
 Industrial Consulting Bureau Pvt. Ltd.
 Bertrams Scott.
 Sisd Tecons Tech. Service, Madras.
 Vulcan-Laval Ltd.
 I C I (India) Pvt. Ltd.
 T R Sathe Pvt. Ltd.

Fertilizers

Fertilizers & Chemicals Travancore.
 Fertilizer Corporation of India.
 Neyveli Lignite Corporation.
 Industrial Consultancy Services, New Delhi.
 Daruwala & Verghese.
 Chattejee & Polk.
 Humpherys & Glasgow.

Petroleum Refining and Petro-Chemicals

Indian Institute of Petroleum.
 Oil and Natural Gas Commission.
 Engineers India, Ltd.
 Indo Berolina Industries Pvt. Ltd.
 Vitro Engineering Co.
 Chatterjee & Polk.
 Koppers India Pvt. Ltd.
 Humpherys & Glasgow.

Cement Industries

A.C.C.
 Kalyanpur Mines and Cement Co. with Holer Bank.
 Tech-Services.
 Chatterjee & Polk.

Paper Factories

Beloit Corpn. with Birlas.
 Bertrams Scott.
 Parson Whitmore.
 Tata Johnson.
 G. Williams and Co., Bombay with M/s. Sandwich.
 International Ltd., Canada.
 W. S. Atkins & Partners.
 Kuljian Corporation.
 Chatterjee & Polk.

General Industrial Consultants

National Industrial Development Corporation.
 Koppers India Pvt. Ltd.
 D. S. Mulla, Bombay.
 Ruhr Consulting Engineers.
 Cemco Pvt. Ltd.
 Mirch Industries.
 Indo Swiss Corporation.
 Hydro Therm India Pvt. Ltd.
 Port Engineering Works.
 J. V. Patel.
 Nowrosji Wadia.
 K. R. Irani.
 Mehandru & Mehandru
 Kirloskar Consultants Ltd.
 Beacons Pvt. Ltd.
 Chatterjee & Polk.
 Kothari Consultants.
 (Industrial Consultants and Liaison Services, Poona).
 Endesco Pvt. Ltd., Bombay.
 Hallmark Services, New Delhi.

The following public undertakings have claimed that they too can undertake pre-
 paration of feasibility study/DPR in their respective fields :—

1. Hindustan Organic Chemicals Ltd.
2. Indian Rare Earths Ltd.
3. Indian Telephone Industries Ltd.
4. Hindustan Antibiotics Ltd.
5. Hindustan Teleprinters Ltd.
6. Hindustan Salts Ltd.
7. Bharat Electronics Ltd.
8. Bharat Earth Movers Ltd.

MAIN DEFICIENCIES IN THE PREPARATION, AWARD AND IMPLEMENTATION OF CONTRACTS RELATING TO CONSTRUCTION IN PUBLIC SECTOR PROJECTS.

(A summary of factual information and deficiencies pointed out in the studies* of the COPP Management Group).

* * * *

I. Making Initial Payment

In the case of Dugda I Coal Washery, a delay of five months occurred in making the initial 10% payment, which was a precondition to the commencement of work. The dispute concerned the form of Bank Guarantee to be used, and the agency which was to bear the connected expenses. Since this was a critical event in the schedule, agreement on this point should have been reached during the original negotiations.

II. Completion of Drawings

Another factor leading to serious schedule slippage in the Dugda I Coal Washery was the delay in the completion of drawings. The contract specified that drawings would be furnished to the project management for approval. The contract also stipulated that changes required in the drawings as a result of review by the project management, would not be sufficient basis for re-negotiating the schedules. This type of clause implies that the changes suggested would be of only a minor nature. Undoubtedly, neither the project management nor the contractor foresaw the possibility of extensive changes in the design. It was the contention of the project management that the initial drawings submitted by the contractors were broad and contained many defects, and that the contractor did not fulfil his responsibility with sufficient expertise. While this might have been true, it is apparent that inadequate contractual understanding by both parties was a major contributing factor in the delay.

III. Establishing Contractor's Schedule

A study of contracts at a number of projects, reveals that contract documents do not generally include realistic contract milestones or key events based upon a master plan and schedule for construction and that such milestones are not linked with the work of other related contractors. For instance, at the Trombay Fertilizer project the Civil Works Contract did not bind the contractor to fulfil his work under conditions consistent with the efficient execution of the overall project. Equipment supplied by overseas firms remained lying at site for a few months till the foundations were made ready. On occasions, the civil works contractor, through lack of a contracted schedule outlining the sequence in which he had to operate was in a position to start work on some of the more remunerative and simpler parts of the project rather than the ones which were needed more urgently. The project authorities were not unaware of the need for a contract schedule. In the Notice Inviting Tenders for the Civil Works, a clause had been inserted stating that a schedule for the contract "shall be drawn up", and that the contractor was required to adhere to it. A second clause allowed the project management to rescind the contract if this schedule was not followed. In addition, the contract duration and issue of drawings were specified by a clause which ran as under :

"The time allowed (for completion of the contract) shall be 20 months from date of issue of the written work order. A certain percentage of drawings will be supplied with the work order and the remaining drawings shall be supplied during the progress of construction."

*COPP Reports : (i) An Analytical Review of Projects in the Energy Development field : Dugda I Coal Washery; Birsampur Coal Mine and Chandrapura Thermal Power Station (November, 1965) and (ii) A review of the construction of Trombay Fertilizer Project (November, 1965).

The above was not specified enough to facilitate exercise of control. Such a general clause did not force the contractor to develop a sound contract estimate. By not contractually linking the contractor of civil works with the production of drawings (or with the work of other participating groups), the contractor was enabled to develop a schedule which would provide room for exorbitant extensions and extras if the drawings were not supplied to him on time. This also applied in the case of Mechanical Erection. The contractor concerned was in a position in this case to assess the progress of foundations on site and submit a schedule which was not in phase with the construction of foundations. He could then pass on the responsibility for slippages to other contractors. In general all the contractors could lay their faults at the door of the preceding contractor.

The drawing of a schedule that binds the contractor becomes almost impossible once the contract has been awarded and work started. At the Trombay Fertilizer Project, attempts were made to bind the major contractor for the Ammonia, Urea, and Nitric Acid plants to a time-schedule during the negotiation period. The negotiations, however, took place only after the contractor had received the Letter of Intent informing him that he had been awarded the contract. He was, therefore, in a position to ask in return other guarantees from the project authorities such as guaranteed dates for securing import licence which the management was unable to furnish. A detailed schedule for this contractor, therefore, could not be established.

IV. Selection and Award of Contracts .

Two major difficulties observed in this area are:

- (i) the length of time taken, administratively, for the scrutiny of tenders ; and
- (ii) lack of clear information on the performance capability of various contractors.

The Table below shows the time taken from the receipt of tenders to the effective date of coming into force of the contract in respect of each of the foreign contracts at the Trombay Fertilizer Project (the date of first down payment has been taken as the effective date). The period allowed to contractors for submission of tenders is not shown in the Table :

Table : Period from receipt of tenders to the coming into force of the contract.

| S.No. | Plant Contract | Time taken to initiate the contract | |
|-------|---|-------------------------------------|-------|
| | | Period | Years |
| 1 | 2 | 3 | 4 |
| 1. | Urea, Nitric Acid and Ammonia | April 60 to June 61 | 1½ |
| 2. | Sulphuric Acid | Sept. 61 to Aug. 63 | 2 |
| 3. | Nitrophosphate | June 60 to Nov. 62 | 2½ |
| 4. | Steam Generation | Sept. 61 to Aug. 63. | 2 |

As such delays add directly to the time required to press the plants into commission, the need for a detailed study of the steps leading to the effective date of starting a contract is indicated. These steps are outlined below in chronological order:

- Preparation of Tenders
- Scrutiny of Tenders
- Selection of Contractor
- Signing of the Contract.

Preparation of Tenders

In inviting tenders for work, sufficiently detailed information is often not given to the contracting organisations and the time specified for submitting the tender is also not always adequate. Drawings and specifications are usually not complete, and inadequate attention is given to the problems likely to be encountered by the contractor. A review of the position that obtained at the Trombay Fertilizer Project in regard to the preparation of tenders revealed that, at the request of prospective tenders, the period allowed by the project authorities for preparation of tenders on three of their contracts was extended, namely :

- (i) *Sulphuric Acid Plant* : Originally a period of 2 months was allowed for the preparation of tenders. This was extended by 3 months.
- (ii) *Urea, Nitric Acid and Ammonia Plant* : The period originally allowed for the preparation of tenders viz. 6 months was extended by 3 months.
- (iii) *Steam Plant* : 2 months were allowed initially for the preparation of tender and later another 2 days were allowed.

This brings out the fact that the time initially allowed for the preparation of the above tenders was inadequate. It is obvious that a contractor who does not have, or is not allowed, sufficient time to prepare a complete and careful tender is liable to inflate his cost estimates for those items of work which he has not had time to work out in detail. The cost, therefore, eventually falls on the project.

Scrutiny of Tenders

In many public undertakings, considerable delays have been experienced in constituting *ad hoc* Tender Review Committees instead of maintaining permanent groups in the project organisation for this work. At the Trombay Fertilizer Project, the practice adopted in evaluating tenders required meetings of a Technical Committee to be convened for assessing the various proposals. This Committee was generally drawn from within the Fertilizer Corporation of India, but experts both from Government and private industry were associated for evaluating the larger contract tenders. An examination of the time taken for evaluation of tenders in respect of major contract at the project indicates that much time could have been saved in the scrutiny of tenders. The table below reveals the time taken from receipt of tenders to issue of Letters of Intent to the selected contractors :

TABLE : Tender Scrutiny Periods

| S.No. | Plant Contract | Tender Scrutiny | |
|-------|---|--------------------------|--------------|
| | | Period | months taken |
| 1 | 2 | 3 | 4 |
| 1. | Ammonia, Nitric acid and Urea | April 1960— Jan. 1961 | 9 |
| 2. | Sulphuric Acid | Sept. 1961— July 1962 | 9 |
| 3. | Bagging | Sept. 1961— June 1962 | 8 |
| 4. | Water Treatment | Sept. 1961— May 1962 | 7 |
| 5. | Steam Generation | Sept. 1961— June 1962 | 8 |
| 6. | Nitrophosphate | June 1960— Oct. 1961 | 16 |

Selection of Contractor

The common practice of selecting the lowest bid without sufficient examination of the contractor's capability to perform the job satisfactorily, does not ensure the selection of the most suitable contractor. This can and has led to unsatisfactory performance and at costs higher than those anticipated. At the Trombay Fertilizer Project, the original Notice inviting Tenders for civil works specified the completion of the contract after 20 months of the issue of the work order. This work order was issued in April, 1962 and the work was started in the following month. But civil works were still under construction when the COPP Management Group visited the project in August 1964. The contractor was allowed to begin work under the authority of a Letter of Intent which gave him little incentive to secure early signing of the contract. Consequently, the project management had very little control over the contractor during this period.

A significantly low bid indicates that the bidder has not allowed for the same amount of work as the other bidders. The review by the COPP Management Group showed that there was such an indication at the fertilizer project. Of the six tenders received for civil works, the cost estimates of the middle four were within 3% of each other. The significant deviation in the lowest bid, which was 10% below the average of the middle four, should have been further analysed.

Signing of Contract

An examination of major contracts at the Trombay Fertilizer Project showed that, in each case, it had taken a long time to finally sign the contract. Table below shows the time taken from the issue of the Letter of Intent to the final signing of the contract in respect of several contracts at the project:

TABLE : Time taken to sign contracts

| S.No. | Plant/Works contract | Period under letter of intent | |
|-------|---|-------------------------------|----------------------|
| | | Period | Months |
| 1 | 2 | 3 | 4 |
| 1. | Sulphuric Acid | July 62— March 63 | 8 |
| 2. | Nitrophosphate | Oct. 61—May 62 | 7 |
| 3. | Steam | June 62— March 63 | 9 |
| 4. | Bagging | June 62— Feb. 63 | 8 |
| 5. | Water Treatment | May 62— April 63 | 11 |
| 6. | Urea, Nitric Acid and Ammonia | Jan. 61— March 61 | 3 |
| 7. | Mechanical Erection | March 62— 1964 | |
| 8. | Civil Works | April 62— Dec. 64. | not signed still. |

Any delay in time from the issue of the Letter of Intent to the signing of the contract has debilitating effects on the economical and efficient execution of the projects, namely :

- (i) In the case of foreign contractors, it delays payment and, therefore, commencement of work and its completion.
- (ii) Once the contractor has a Letter of Intent, he tends to be less flexible in the final negotiations placing the project management at a disadvantage.
- (iii) Project managers have, during the intervening period, only minimal control over the contractors.

**EXTRACTS FROM THE REPORT MADE IN MAY, 1966 BY A COMMITTEE*
SET UP BY THE MINISTRY OF MINES AND METALS TO EXAMINE
THE PROBLEMS OF RECRUITMENT AND MANNING OF POSTS IN
PUBLIC UNDERTAKINGS.**

* * * * *

10. The Committee considers a reorganisation of the Pool (IMP), and even the setting up of a new Pool, both possible and desirable, in pursuance of a deliberate scheme of encadrement of posts and of active participation in the scheme by the enterprises concerned. The latter aspect, viz., that of active participation of the enterprises, is important, in order to create a feeling of involvement among them. The Committee would recommend that this can be achieved by providing for representation of the public enterprises along with that of the Government of India in the controlling Board of the Pool or Pools. With such participation, it should not be difficult to convince the administrative Ministries concerned as well as the public enterprises that it would be to their larger interest to encadre at least a proportion of their middle level posts in the Pool and accept a certain amount of restriction in their autonomy in this respect, by leaving such posts to be filled by the Pool authorities. The Committee has no doubt that the benefits which the officers of the enterprises would derive by participating in the Pool, the greater contentment this would create and the larger interest the Pool would serve, will persuade most, if not all, the public enterprises to accept the scheme.

11. Another broad conclusion which would follow from the review of the problems of preceding paragraphs is that there is need to provide a suitable mechanism to utilise the surplus staff available with some of the public enterprises and thus prevent not only psychological frustration arising out of the lack of prospects, but in fact avoid waste of trained manpower. As has been stated earlier in this report, there are instances specially when public enterprises switch over from the stage of construction to that of production, of trained manpower becoming surplus to their requirements. Even otherwise, there are instances of concentration of manpower at certain age or seniority levels which create frustration at the lack of prospects among persons, otherwise suitable, from being promoted to higher managerial levels and cause flight of personnel from such enterprises. Both these types of problems call for the creation of a central mechanism to enable transfers to be made from one public enterprise to another. It should be possible for this central organisation to take note both of the position of surplus and that of stagnation arising in certain enterprises and to correlate them with the requirements of others. It should also be possible as a matter of convention to provide that the public enterprises, where vacancies exist should, in the first instance, consider the personnel available from enterprises which are in a position to provide such personnel. The Committee does not envisage compulsory regulation of such transfers, but feels that an arrangement for correlation and persuasion would suffice to ensure the flow of trained personnel to enterprises where they are needed most from those that can spare them. The Committee is of opinion that it would be best to entrust this work to the authorities of the Central Pool, the constitution of which has been recommended in the preceding paragraphs.

12. Recruitment

The Committee has considered the problem of recruitment in the above context. It is aware of the suggestions made that there should be a common recruitment authority, analogous to the Public Service Commission, for recruitment of personnel to the public

*The Committee consisted of Shri R. C. Dutt, Director General, Bureau of Public Enterprises; Shri S. T. Raja, Managing Director, National Coal Development Corporation; Shri S. N. Bilgrami, Chairman, National Mineral Development Corporation; Shri S. K. Nargundkar, Managing Director, Singareni Collieries Ltd; Shri K. N. Subbaraman, Chairman, Neyveli Lignite Corporation; and Shri S. P. Gugnani, Deputy Secretary, Ministry of Mines & Metals.

enterprises. The Committee is not in favour of such a Central authority, not merely because it would infringe on the autonomy of the enterprises, but more so because such recruitment would cause considerable delays which the enterprises can ill afford. Recruitment to meet the immediate needs of an enterprise as it develops is an urgent necessity. This urgency can be and is felt by the enterprise concerned, and cannot be transmitted to a Central authority which would necessarily deal with requisitions from the different enterprises on the basis of its own priorities. The procedure for recruitment specially when such recruitment is conducted by a Central authority, tends to be elaborate and time-consuming. This has certainly happened in Government and though for various reasons the system of recruitment through Public Service Commission has to be followed in Government organisations, there is no need to relay it to the public enterprises. The Committee is, therefore, of opinion that the initial recruitment should be left to the public enterprises themselves, except to the extent indicated hereafter.

13. Manning of Middle Level Posts

Consistent with the general scheme outlined in the preceding paragraphs, the Committee would make the following recommendations :

- (i) Public Enterprises which participate in the Pool Scheme should undertake a review of their present posts carrying pay of and above the minimum of Rs. 1300 and grade them in the following three scales:—
 - (a) Rs. 1300- 60-1600
 - (b) Rs. 1600-100-2000
 - (c) Rs. 2000-125-2250
- ii) Public Enterprises which participate in the scheme should encadre in the Central Pool normally 50% of the posts of the three above levels in the following branches :—
 - (a) General management, including stores, purchase, sales, and personnel branches.
 - (b) Financial management, including commercial accounting and cost accounting.
 - (c) Technical, consisting of Construction Engineering, Electrical Engineering, Mechanical Engineering, Industrial Engineering, Chemical Engineering and Mining Engineering.
- (iii) The above should not be rigidly exclusive of one or another. In fact, subject to the requirements of the posts there should be interflow of personnel from one branch to another, and all the branches should have personnel for the top managerial posts.
- (iv) The above recommendations, if accepted would lead to a comparatively large number of posts being encadred at the three levels from Rs. 1300-1600 to Rs. 2000-2250.

For the reorganised Industrial Management Pool, it would, therefore, be necessary to recruit suitable officers at these levels. The Committee recommends that this should be done mainly by selection of existing officers serving in the public undertakings who are willing to be considered for appointment to the Pool. The rules for this purpose specifying the qualifications, total length of experience etc., for recruitment to the various grades of the Pool can be prescribed by the Controlling Authority, but normally, officers holding posts in public enterprises either at the same level or at a level immediately below, should be eligible for appointment to the appropriate grades in the Pool.

- (v) The actual number of posts to be encadred by a public enterprise in the Pool would have to be adjusted on the basis of the number of officers selected from that enterprise for the Pool. It is not the intention that the officers holding the posts at these levels in the public enterprises should be permanently debarred from appointments at these levels merely because they are either unwilling to be considered for the Pool or are not selected for it.

For such officers who remain outside the Pool, certain *ex-cadre* posts should be available not only for their continuance in their existing posts but also for their normal promotions. If, for this purpose, certain variations have to be made, from the normal percentage of inclusion recommended earlier, the Committee is of opinion that such modifications should be made. This will ensure that no one is adversely affected by inclusion of posts in the Pool.

(vi) In order not to cause hardship to the existing officers of public enterprises, the Committee recommends that officers who are either not willing to be considered for the Pool or are not selected for it at a particular stage, should not, for either of these reasons, be debarred from further consideration. Whenever vacancies arise in the Pool, all eligible officers should be considered, including those who had not been selected earlier. It should be open to an officer to change his mind and offer himself for the Pool for any subsequent vacancy that may arise.

(vii) The Home Ministry should continue to be the controlling authority of the reorganised Pools. The Committee is, however, of opinion that the Advisory Committee should be more broad-based than it is at present in order to make it acceptable to the public enterprises. The Committee suggest that the Board should consist of the following:—

- | | | |
|--|-----------|--------------------------|
| 1. Cabinet Secretary | | Chairman |
| 2. Secretary, Ministry of Home Affairs | | <i>Ex-Officio</i> Member |
| 3. Secretary in-charge of Public Enterprises | | Do. |
| 4. Four chief executives of Public Enterprises drawn by rotation. | | Do. |

The Board may appoint a whole-time or part-time Secretary, as it considers necessary.

(viii) The Advisory Board proposed in the preceding sub-paragraph should deal with promotions, postings and transfers in respect of all the grades of Industrial Management Pool carrying pay scales whose maxima do not exceed Rs. 2250, excluding posts of Chief Executive Officers and Financial Controllers/Advisers of public enterprises for which appointments are made by Government. These posts as well as posts carrying pay above Rs. 2250/- should continue to be considered by the Committee of Secretaries as at present.

(ix) The Committee does not envisage that the Advisory Board would need to meet very frequently. It would suffice if a meeting is held once every quarter. The main function of the Board should be to draw up approved panels based on selection by merit for different grades of the Pool. Subject to these panels, it should be open to the Secretary of the Board in direct correspondence with the public enterprises concerned to post officers to the public enterprises and report such postings to the next meeting of the Board. The normal procedure should be for the Secretary to suggest as far as possible, a list of four or five names for each post to be filled to the Enterprise in question.

(x) In framing recruitment rules for the aforesaid grades of the Pool, direct recruitment from the open market should be indicated as a distinct possibility. The Committee is, however, of opinion that preference should be given to the existing officers of the public enterprises and that direct recruitment should be resorted to only when and to the extent that suitable officers are not available from the enterprises themselves.

(xi) On initial appointment to the Pool, the officer belonging to a Public Enterprise should be allowed to retain his lien on his parent post as long as he is on probation. On satisfactory completion of the probation, however, when the officer is confirmed in the Pool, he should be required to give up his lien in the parent enterprise. On such absorption, the officer would be subject to all the conditions of service attached to the Pool e.g., rules of

pension, leave, provident fund, transfer, T.A. etc. The Committee does not intend to go into details of recruitment, initial or recurring, nor into such matters as the period of probation. These can be worked out by the controlling authority, namely, the Home Ministry in consultation with the Bureau of Public Enterprises.

- (xii) In order to provide suitable material for recruitment to the Pool, the Committee considers it highly necessary that the methods of recruitment, training and prescription of minimum qualifications for junior level posts in the public undertakings should be placed on a firm, and if possible, uniform basis. The Ministry of Industry has already circulated to the public enterprises certain model Recruitment and Conditions of Service rules. Ministries should ascertain from the public undertakings the extent to which these rules have in practice been adopted by the latter. Any further advice or assistance in this matter should be available from the Bureau of Public Enterprises.
- (xiii) It is also necessary that the system of reporting on officers should be both systematic and uniform in order that it is possible to apply the same standard of assessment to officers belonging to the various undertakings. In the opinion of the Committee, the confidential report on officers should, as far as possible, be factual and objective. In the case of field officers, it should be possible for the reporting officers to indicate the results actually achieved in regard to production and cost thereof. Even in other spheres, certain objective criteria of reporting could and should be adopted. In this respect too, the Bureau of Public Enterprises would be in a position to render such advice and assistance as the public undertakings may require.

It is also necessary that proper arrangements should be made in the public enterprises for review, at a higher level, of all the reports on officers prepared by the immediate superior authorities. In making this review, the Committee is of opinion that the Chief Executive Officer of the undertaking should be assisted by senior heads of departments. This would enable the Chief Executive to be fully apprised of the performance of the officers reported upon."

ANNEXURE X
(Vide Para 10-20)

ESTIMATED AND ACTUAL RETURNS TO GOVERNMENT IN THE SHAPE OF DIVIDENDS/PROFITS ACCRUING
ON INVESTMENT IN SHARE CAPITAL (i.e. EQUITY ONLY) IN THE CASE OF RUNNING CENTRAL GOVERN-
MENT CONCERNS (INCLUDING PROMOTIONAL/DEVELOPMENTAL) DURING 1965-66

(In lakhs of rupees)

| Name of Undertaking | Investment in share capital upto 1964-65 | Dividend/profit expected | | Dividend/profit received by Govt. in 1965-66 | Percentage of (5) to (2) |
|--------------------------------------|--|-------------------------------------|--------------|---|--------------------------------|
| | | to accrue to Govt. in 1965-66 | R.E. 1965-66 | | |
| | (2) | (3) | (4) | (5) | |
| <i>Industrial and Manufacturing</i> | | | | | |
| 1. Garden Reach Workshops Ltd. | 100 | .. | 6 | 6 | 6% |
| 2. Mazagon Dock Ltd. | 108 | .. | .. | 6 | 5.5% |
| 3. Bharat Electronics | 521 | .. | 26 | 31 | 5.9% |
| 4. Praga Tools Ltd. | 84 (67) | .. | 3 | 3 | 3.6% |
| 5. National Instruments Ltd. | 134 | 5 | 3 | 3 | 2.2% |
| 6. Hindustan Cables Ltd. | 179 | 11 | 11 | 11 | 6.1% |
| 7. Nepa Mills Ltd. | 255 (239) | .. | 15 | 15 | 5.9% |
| 8. Hindustan Machine Tools Ltd. | 800 | 95 | 100 | 80 | 10% |
| 9. Hindustan Antibiotics Ltd. | 247 | 25 | 25 | 25 | 10.1% |
| 10. Hindustan Insecticides Ltd. | 97 | 8 | 8 | 6 | 6.2% |
| 11. Indian Rare Earths Ltd. | 100 | 7 | 7 | 7 | 7% |
| 12. Indian Telephone Industries Ltd. | 359 (84) | 16 | 18 | 23 | 6.4% |
| 13. Hindustan Teleprinters Ltd. | 82 | .. | .. | 2 | 2.4% |

| Name of Undertaking | Investment in | Dividend/profit expected | Dividend/profit | Percentage |
|---|--------------------------|----------------------------------|------------------------------------|------------------|
| | share capital 1964-65 | to accrue to Govt. in 1965-66 | received by Govt. in 1965-66 | of (5) to (2) |
| | (2) | (3) | (4) | (5) |
| Public Utilities and Services | | | | |
| 14. Mogaal Line Ltd. | 81 (20) | .. | 6 | 7.4% |
| 15. Air India | 2682 | 67 | 67 | 2.5% |
| 16. Indian Airlines Corporation | 2194 | .. | 55 | 2.5% |
| Commercial and Trading | | | | |
| 17. Minerals and Metals Trading Corporation of India Ltd. | 200 | 20 | .. | .. |
| 18. State Trading Corporation of India Ltd. | 200 | 20 | 20 | .. |
| 19. National Projects Construction Corporation Ltd. | 50 (100) | .. | 6 | 6% |
| 20. Hindustan Housing Factory Ltd. | 49 | .. | 3 | 6.1% |
| 21. Ashoka Hotels Ltd. | 134 (16) | .. | 14 | 5.2% |
| Promotional and Developmental | | | | |
| 22. Central Warehousing Corporation | 500 (194) | 11 | 24 | 24* |
| 23. National Industrial Development Corporation Ltd. | 10 | .. | 5 | .. |
| 24. Oil and Natural Gas Commission | 1,19,85 | .. | 136 | 1.1% |

Footnotes:

- The figures in brackets are for investments other than by Government.
- *Represents guaranteed dividend @ 3½% paid out of funds provided by the Government of India.
- In the case of other running concerns and promotional and developmental undertakings, estimates of dividend/profits were not indicated in the explanatory memoranda to the budgets from which the above figures have been derived.

Source: Explanatory Memoranda on the Budget of the Central Government for the years 1965-66, 1966-67 and 1967-68.

ANNEXURE XI
(Vide Para 10·23)

STATEMENT SHOWING TOTAL RETURN ON THE TOTAL CAPITAL INVESTED IN RUNNING CONCERNS OF THE
CENTRAL GOVERNMENT (EXCLUDING PROMOTION, I. I. DEVELOPMENTAL AND FINANCIAL CONCERNS)
FOR THE YEAR 1964-65.

| Name of Undertaking | Total capital invested i.e., paid up capital, long-term loans & free reserves) | Total Return i. e., profit as disclosed in the accounts and interest paid on long-term loans) | Percentage of (3) to (2) |
|--|---|---|-----------------------------|
| | | | |
| <i>Industrial and Manufacturing</i> | | | |
| 1. Hindustan Steel Ltd. | 885·10 | 20·00 | 2·3 |
| 2. Indian Oil Corporation Ltd. | 99·51 | 3·36 | 3·4 |
| 3. Fertilizer Corporation of India Ltd. | 99·53 | 4·45 | 4·5 |
| 4. Hindustan Aeronautics Ltd. | 34·17 | 1·25 | 3·7 |
| 5. Hindustan Machine Tools Ltd. | 22·36 | 4·29 | 19·2 |
| 6. National Coal Development Corporation Ltd. | 105·62 | 5·94 | 0·9 |
| 7. Bharat Electronics Ltd. | 8·99 | 1·10 | 12·2 |
| 8. Praga Tools Ltd. | 2·47 | 5·20 | 8·0 |
| 9. Hindustan Cables Ltd. | 4·54 | 0·66 | 14·5 |
| 10. National Instruments Ltd. | 1·70 | 0·14 | 8·3 |
| 11. Indian Telephone Industries Ltd. | 8·33 | 1·66 | 19·9 |
| 12. Bharat Earth Movers Ltd. | 6·64 | 0·12 | 1·8 |
| 13. Hindustan Teleprinters Ltd. | 2·61 | 0·05 | 1·9 |
| 14. Hindustan Antibiotics Ltd. | 6·11 | 0·78 | 12·8 |
| 15. Hindustan Insecticides Ltd. | 2·22 | 0·45 | 20·3 |
| 16. Hindustan Salts Ltd. (Year ending 30-9-64) | 2·07 | 0·17 | 8·2 |

| Name of Undertaking | Total capital invested (i.e., paid up capital, long-term loans and free reserves) | Total Return (i.e., profit as disclosed in the accounts and interest paid on long-term loans) | Percentage of (3) to (2) |
|--|--|---|-----------------------------|
| | (2) | (3) | |
| 17. Indian Rate Earths Ltd. | 1.14 | 0.19 | 16.6 |
| 18. Fertilizers and Chemicals Travancore Ltd. | 17.66 | 0.04 | 0.2 |
| 19. Hindustan Shipyard Ltd. | 6.09 | 0.01 | 0.1 |
| 20. Mazagon Dock Ltd. | 2.13 | 0.19 | 9.0 |
| 21. Garden Reach Workshops Ltd. | 2.45 | 0.12 | 4.9 |
| 22. Nepa Mills Ltd. | 5.90 | 0.60 | 11.2 |
| <i>Public Utilities and Services</i> | | | |
| 23. Mogul Line Ltd. (Year ending 30-12-64) | 2.23 | 0.64 | 28.8 |
| 24. Shipping Corporation of India Ltd. | 40.49 | 2.12 | 5.2 |
| 25. Central Road Transport Corporation Ltd. | 0.39 | 0.05 | 13.0 |
| 26. Air India | 42.93 | 4.11 | 9.6 |
| 27. Indian Airlines Corporation | 30.22 | 2.06 | 6.8 |
| <i>Commercial and Trading</i> | | | |
| 28. State Trading Corporation of India Ltd. | 9.65 | 4.77 | 49.4 |
| 29. Minerals and Metals Trading Corporation of India Ltd. | 5.78 | 0.87 | 15.1 |
| 30. Hindustan Housing Factory Ltd. | 1.09 | 0.09 | 8.0 |
| 31. National Buildings Construction Corporation Ltd. | 2.34 | (—)0.18 | .. |
| 32. Ashoka Hotels Ltd. | 1.96 | 0.43 | 21.9 |
| 33. Janpath Hotels Ltd. | 0.26 | 0.06 | 23.0 |
| 34. National Projects Construction Corporation Ltd. | 4.46 | 0.60 | 13.5 |
| TOTAL | 1469.14 | 56.85 | 3.8 |

Source : Audit Report (Commercial) 1966.

ANNEXURE X II

(Vide Para 10.24)

STATEMENT SHOWING PROFITABILITY RATIOS OF RUNNING CONCERNS OF THE CENTRAL GOVERNMENT FOR THE YEAR 1965-66.

| Undertaking | Net profit* as % of paid up capital | | Gross profit** as % of capital employed | |
|--|---|------------------|---|------------------|
| | 1965-66 | Previous year | 1965-66 | Previous year |
| <i>Engineering :</i> | | | | |
| 1. Hindustan Teleprinters Ltd. | 25.6 | L | 11.6 | 2.3 |
| 2. Indian Telephone Industries Ltd. | 23.2 | 13.1 | 19.3 | 16.0 |
| 3. Bharat Electronics Ltd. | 13.3 | 11.3 | 15.9 | 12.5 |
| 4. Hindustan Machine Tools Ltd. | 10.9 | 28.6 | 7.9 | 16.5 |
| 5. Bharat Earth Movers Ltd. | 4.5 | 1.8 | 5.9 | 1.9 |
| 6. Hindustan Aeronautics Ltd. | 3.2 | 3.9 | 5.3 | 5.8 |
| 7. National Instruments Ltd. | 2.1 | 7.0 | 4.4 | 11.6 |
| 8. Praga Tools Ltd. | .. | 8.8 | 3.3 | 7.8 |
| 9. Hindustan Steel Ltd. | 0.4 | 0.5 | 3.0 | 3.3 |
| 10. Hindustan Cables Ltd. | L | 22.4 | 1.7 | 13.5 |
| 11. Heavy Electricals (India) Ltd. | L | L | L | L |
| <i>Chemicals</i> | | | | |
| 12. Hindustan Antibiotics Ltd. | 31.9 | 20.0 | 21.3 | 12.0 |
| 13. Hindustan Insecticides Ltd. | 17.0 | 20.5 | 16.3 | |
| 14. Indian Rare Earths Ltd. | 5.9 | 9.2 | 10.5 | 16.7 |
| 15. Fertilizer Corporation of India Ltd. | 0.8 | 4.7 | 1.9 | 5.2 |
| 16. Hindustan Salts Ltd. | L | 3.5 | L | 9.8 |
| Sambhar Salts (Subsidiary) | 10.7 | .. | 22.8 | .. |
| 17. Fertilizers & Chemicals Travancore Ltd. | L | L | L | L |
| <i>Mining and Minerals</i> | | | | |
| 18. National Coal Development Cor- poration Ltd. | 0.8 | L | 3.5 | L |
| 19. Neyveli Lignite Corporation Ltd. | L | L | 1.0 | L |
| 20. National Mineral Development Corporation Ltd. | L | L | L | L |

| Undertaking | Net profit* as % of paid up capital | | Gross profit** as % of capital employed | |
|---|-------------------------------------|---------------|---|---------------|
| | 1965-66 | Previous year | 1965-66 | Previous year |
| <i>Building and Repairing Ships</i> | | | | |
| 21. Garden Reach Workshop Ltd. | 15.7 | 1.8 | 12.4 | 5.9 |
| 22. Mazagon Dock Ltd. | 4.8 | 6.2 | 8.0 | 8.6 |
| 23. Hindustan Shipyard Ltd. | 1.8 | 0.1 | 2.2 | 0.4 |
| <i>Aviation and Shipping</i> | | | | |
| 24. Mogul Line Ltd. | 35.6 | 30.5 | 20.3 | 15.5 |
| 25. Shipping Corporation of India Ltd. | 7.8 | 6.8 | 6.3 | 6.0 |
| 26. Air India | 2.8 | 11.6 | 3.1 | 8.3 |
| 27. Indian Airlines Corporation | 0.7 | 6.4 | 1.3 | 9.0 |
| <i>Miscellaneous</i> | | | | |
| 28. Hindustan Steel Works Construction Ltd. | 1128.0 | .. | 213.2 | .. |
| 29. State Trading Corporation of India Ltd. | 79.6 | 84.8 | 35.0 | 44.8 |
| 30. Minerals & Metals Trading Corporation of India Ltd. | 51.7 | 12.7 | 8.4 | 10.4 |
| 31. Hindustan Housing Factory Ltd. | 14.1 | 5.9 | 17.0 | 8.2 |
| 32. National Newsprint & Paper Mills Ltd. | 7.9 | 7.4 | 11.4 | 12.6 |
| 33. National Projects Construction Corporation Ltd. | 7.8 | 18.0 | 5.5 | 6.7 |
| 34. Ashoka Hotels Ltd. | 7.5 | 12.3 | 12.8 | 21.5 |
| 35. Central Road Transport Corporation Ltd. | 2.5 | 7.5 | 6.0 | 13.4 |
| 36. Indian Oil Corporation Ltd. | 2.3 | 1.7 | 4.5 | 7.9 |
| 37. Janpath Hotels Ltd. | 0.7 | 25.5 | 2.7 | 23.7 |
| 38. National Buildings Construction Corporation Ltd. | L | L | L | L |
| 39. Engineers (India) Ltd. | L | .. | L | .. |

*Net Profit: Represents the figure arrived at after deducting from the gross profit provision for interest and taxes but before allocation to reserves.

**Gross Profit: Represents the excess of income over expenditure after providing for depreciation but before providing for interest, taxes and allocation of reserves.

Capital employed: Represents gross block less depreciation plus working capital.

L: Loss.

Source: Information supplied by the Bureau of Public Enterprises.

LIST OF PERSONS WITH WHOM STUDY TEAM HAD DISCUSSIONS*Government*

1. Shri N. N. Wanchoo, Secretary, Ministry of Iron and Steel.
2. Shri P. Govindan Nair, Secretary, Ministry of Finance (Coordination).
3. Shri N. Subrahmanyam, Special Secretary, Ministry of Industry.

C & AG's Organization

4. Shri A. K. Mukherji, Additional Deputy C & A-G.
5. Shri N. K. Bhattacharyya, Director of Commercial Audit.

Hindustan Steel

6. Shri M. S. Rao, Chairman.
7. Shri H. Bhaya, Secretary.
8. Shri D. S. Nakra, FA.
9. Dr. P. Prasad, Economic Adviser.
10. Shri A. N. Banerji, General Manager, Rourkela Steel Plant.

Fertilizer Corporation of India

11. Shri Satish Chandra, Chairman.
12. Shri O. K. Ghosh, FA.
13. Dr. S. K. Mukherjee, General Manager, Trombay Fertilizer Plant.
14. Shri T. S. Subramanian, FA, Trombay Fertilizer Plant.
15. Dr. H. A. Bhatta, Chief Engineer, Trombay Fertilizer Plant.

Indian Oil Corporation

16. Shri N. N. Kashyap, Managing Director, Refineries Division (*now Chairman*).
17. Shri B. N. Goyal, Accounts Officer.
18. Shri C. R. Dasgupta, Dy. GM, Gujarat Refinery.
19. Shri Keshav Rao, COSP, Gujarat Refinery.
20. Shri P. K. Biswas, CAO, Gujarat Refinery.
21. Shri V. P. Bhatnagar, Personnel Officer, Gujarat Refinery.

Heavy Electricals

22. Shri K. C. Lall, Chairman.
23. Shri Sundrarajan, AFA.

Heavy Engineering Corporation

24. Shri T. R. Gupta, Chairman.
25. Shri A. C. Bhatla, FA.
26. Shri M. Krishnamurthy, General Manager, Heavy Machine Building Plant.
27. Shri L. N. Dhar, General Manager, Foundry Forge Plant.
28. Shri A. K. Ghosh, Chief Project Officer, Heavy Machine Tools Plant.

National Coal Development Corporation

29. Shri R. K. Ojha, Chief Accounts Officer.
30. Shri S. P. Ghoshal, Controller of Purchases.
31. Shri G. J. Rosario, Controller of Stores.

Hindustan Aeronautics

32. Air Marshal P. C. Lal, Managing Director.
33. Shri V. G. Kamath, FA.

Bharat Electronics

34. Shri B. V. Baliga, Managing Director.
35. Shri A. Rangaswamy, Financial Controller.

Hindustan Machine Tools

36. Shri S. M. Patil, Managing Director.
37. Shri M. Nageswara Rao, Financial Controller.

Gujarat State Fertilizer Co.

38. Dr. C. B. Patel, Executive Director (Technical).
39. Shri R. Narayanaswami, Executive Director (Finance).

Gujarat Electricity Board

40. Shri V. Kurien, Chairman.
41. Shri V. Subramanian, Accounts Member.
42. Shri J. V. Vyas, Secretary.
43. Shri S. L. Brahmachary, FA & CAO.

Burmah-Shell Refineries

44. Shri H. W. J. Nash, Managing Director.

PERSONS WITH WHOM CHAIRMAN, STUDY TEAM, HAD
DISCUSSIONS

Planning Commission

45. Shri Tarlok Singh, Member.
46. Maj-Gen. Harkirat Singh, Adviser, Construction Division.
47. Shri J. M. Kitchlu, Chief, Management Division, COPP.

Fertilizers and Chemicals Travancore

48. Shri M. K. K. Nayar, Managing Director.
49. Shri T. C. Krishnan, Finance Manager.

Kerala Government Undertakings

50. Shri T. K. Chakunny, Managing Director, Travancore Cochin Chemicals Ltd.
51. Shri C. L. Jacob, Chairman, Kerala State Transport Corporation.
52. Shri Ranganathan, CAO, Kerala State Transport Corporation.
53. Shri K. Chandu Nair, Chairman, Kerala State Electricity Board.
54. Shri K. Govinda Pillai, Accounts Member, Kerala State Electricity Board.
55. Shri A. M. Mani, Chief Engineer, Kerala State Electricity Board.
56. Shri K. B. Warriar, Chairman, Kerala Ceramics Ltd.

*PERSONS FROM WHOM MEMORANDA/NOTES WERE RECEIVED
BY THE STUDY TEAM*

1. Shri H. Bhaya, Secretary, HSL.
2. Shri M. A. Chidambaram.
3. Shri P. K. Das, Director, Institute of Applied Manpower Research.
4. Shri D. D. Diwan.
5. Shri T. R. Gupta, Chairman, HEC.
6. Shri R. S. Krishnan, Project Administrator, BHEL Unit, Tiruchy.
7. Shri N. Krishnan, Chief Cost Accounts Officer, Ministry of Finance.
8. Shri K. C. Lall, Chairman, HEL.
9. Shri K. B. Mathur, Chairman, HMT and Triveni Structural Ltd.
10. Shri D. L. Mazumdar, Director, India International Centre.
11. Shri N. N. Mallya, Joint Secretary, Lok Sabha Secretariat.
12. Shri M. M. Mehta, Director, Bureau of Public Enterprises.
13. Shri D. S. Nakra, Financial Adviser, HSL.
14. Dr. P. Prasad, Economic Adviser, HSL.
15. Brig. K. Pennatheur, Executive Director, National Productivity Council.
16. Shri M. S. Rao, Chairman, HSL.
17. Shri K. B. Rao, Managing Director, National Industrial Development Corporation.
18. Shri K. Santhanam.
19. Shri Harkirat Singh, Adviser, Construction Division, Planning Commission.
20. Shri Subbaraman, Chairman, Neyveli Lignite Corporation.
21. Shri J. R. D. Tata, Chairman, Air India.

COPP (MANAGEMENT DIVISION), PLANNING COMMISSION

1. Shri J. M. Kitchlu, Chief, Management Division.
2. Shri Bharat B Shah, Management Analyst.
3. Shri C.S. Parthasarthy, Management Analyst.
4. Shri P. S. Gupta, Management Analyst.
5. Shri A. P. Saxena, Management Analyst.

I.I.P.A.

Dr. G. P. Keshava.

INSTITUTIONS/ASSOCIATIONS

1. Institute of Secretaries, Bangalore.
2. Officers of Industrial Management Pool, Durgapur.
3. Actuarial Society of India, Bombay.
4. Institute of Management, Ahmedabad.