

# REPORT

# PUBLIC SECTOR UNDERTAKING

GOVERNMENT OF INDIA



ADMINISTRATIVE REFORMS COMMISSION

# REPORT

ON

PUBLIC  
SECTOR

UNDERTAKINGS

OCTOBER 1967

PRINTED IN INDIA BY THE MANAGER GOVERNMENT OF INDIA PRESS  
SIMLA FOR THE MANAGER OF PUBLICATIONS CIVIL LINES DELHI  
1967

*Price: Inland Rs. 2.90 P.—Foreign 6sh. 10d. or 1 \$ 5 cents.*

## CONTENTS

CHAPTER	PAGE
I Introduction ... ..	1
II Public Sector To-day ... ..	3
III Organisational Structure ... ..	12
IV Public Enterprises, Parliament and Government	26
V Planning and Construction of Projects ...	39
VI Resources—External and Internal ... ..	47
VII Financial and Materials Management ... ..	56
VIII Personnel ... ..	66
IX Audit and Appraisal ... ..	89
X Summary of Recommendations ... ..	96
Annexure ... ..	120



सत्यमेव जयते

( ii )

The best way to enable an undertaking to be run with the greatest efficiency is to confer on it maximum possible autonomy and hold it accountable for performance. In this connection, I would refer to a few of the more important recommendations we have made in our Report. We have recommended the setting up of 'sector corporations', one for each specified major area of enterprise having as its main function the promotion and development in that area including the setting up of new projects. The units in the corporation will have operational autonomy and the sector corporation on its part will provide for and coordinate common service activities like research and consultancy, training and sales promotion. A reorganisation of the Bureau of Public Enterprises has been recommended with a view to making it a more effective service agency for the Ministries and the public undertakings. Another recommendation breaking new ground relates to the constitution of several Audit Boards for conducting efficiency audit as well as for making appraisal of performance. Each Audit Board would deal with certain specified areas of enterprise.

The control and supervision of Parliament have to be made more effective and purposeful. We have therefore suggested that time must specifically be set apart for discussion by Parliament of the working of the public undertakings.

The Commission considers the work done by the Study Team to be of great value and thanks its Chairman and the members.

The Secretary of the Commission, Shri V. V. Chari, has done his work in so painstaking and methodical a manner that he deserves special appreciation.



Yours sincerely,

K. Hanumanthaiya

Shrīmati Indira Gandhi,  
Prime Minister,  
New Delhi.

CHAIRMAN

ADMINISTRATIVE REFORMS COMMISSION  
GOVERNMENT OF INDIA  
NEW DELHI

October 17, 1967

My dear Prime Minister,

I have the pleasure of presenting to you another Report, the Report on Public Sector Undertakings. The Commission has already presented two reports, one on Lokpal and Lokayukta and another on Planning Commission.

The Commission had appointed a Study Team to examine the problems relating to public sector undertakings and make suitable recommendations. A copy of the report submitted by the Study Team is enclosed.

Public undertakings constitute the pivot of Government effort to speed up economic progress and bring into existence a socialist pattern of society. The investment made in, and encouragement given to, public undertakings are unprecedented and high hopes have been raised of their performance. While it has to be recognised that they have made considerable contribution to the economy of the country, it is equally evident that their performance has not been up to the mark. The size of cumulative and annual losses that a number of them have incurred, cause concern. The quality and price of goods manufactured have not in many cases given full satisfaction. It is said that the Indian peasant, the poorest in the world, is made to pay the highest price in the world for the fertiliser he purchases.

There are very many reasons for this state of affairs; the principal one pertains to organisation and management. A public undertaking has to be worked with public spirit. The management and labour have both to realise that public undertakings are the property of the people, to be run for general good, and that personal gain, selfish ends and sectional interests have to be eschewed. Keeping this point in view, the Commission has made recommendations for improving administrative efficiency and industrial relations.

Public undertakings have to work on business principles and employees therein must depend on merit, and not on inbuilt security. At the same time the promotional prospects must be such as to facilitate the lowest employee to rise to the highest position, if he has the requisite qualifications and ability. The practice of deputing Government officers for temporary service in public undertakings should cease. The Commission has made recommendations for the proper selection of personnel, their training and for providing them with adequate prospects.

L/S3ARC -1

## CHAPTER I

### INTRODUCTION

The rapid achievement of economic progress has been the major objective of governmental policy and action since India won freedom in 1947. Economic development before Independence was largely left to the efforts of the private sector, and the role of the State was confined to providing the essential economic infra-structure. The position has changed radically since then. There has been a rapid and considerable expansion of the public sector. Public enterprises have assumed a key role in the economy of the country and their performance will now largely determine the speed and effectiveness with which we can achieve our social and economic goals.

2. The Commission appointed in May, 1966, a Study Team to examine and report on the various problems relating to the management of public sector undertakings. The Team was headed by Shri Ravindra Varma. and included as members Shri P. R. Ramakrishnan, Shri P. Venkatasubbaiah, M.P., Shri Kripal Singh, Shri R. C. Dutt, Maj. Gen. Sardanand Singh (Retd.), Shri Prakash L. Tandon and Shri S. T. Raja. Shri Naresh Chandra, Deputy Secretary in the Administrative Reforms Commission, worked as Secretary to the Team.

3. In view of the large number of public undertakings and the wide range of their activities, the Study Team concentrated its attention mainly on the important and basic problems of managing the industrial and commercial enterprises of the Central Government. The Team held as many as forty meetings and visited ten public undertakings. The Team has approached its task with a freshness and clarity of outlook and its report has highlighted, in an objective and comprehensive manner, major defects and deficiencies in the working of the public enterprises. The Commission would like to place on record its high appreciation of the work done so painstakingly by the Chairman, Members and Secretary of the Study Team.

4. The Commission have carefully considered the report of the Study Team and have, in addition, discussed some of the main problems with several competent and experienced persons including the Chairman of the Parliamentary Committee on Public Undertakings, the Union Minister of Industrial Development and Company Affairs, and the Union Minister of Labour, Employment and Rehabilitation, the Secretary of the Department of Labour and Employment, and Chairmen of two important public enterprises as well as some representatives of labour. The Commission also visited six public undertakings, and Chairman by himself visited four public undertakings in addition. Useful discussions were held on the site.

5. We do not propose to deal in this report with the enterprises run directly by Government departments. We have constituted a  
L/S3ARC-1(a)

Study Team on Railways and a Working Group on Posts and Telegraphs and we intend to report separately on the administrative management of these departments. We did not think it necessary to deal with concerns in which Government hold only a minority interest and, therefore, do not have any direct responsibility of management. Our findings and recommendations mainly cover the undertakings of an industrial and commercial character in the Central sector. But our recommendations can be applied *mutatis mutandis* to similar concerns of the State Governments.

6. We have not dealt with in detail certain aspects of commercial and financial organisations in the public sector as they will be more appropriately discussed in our report on Economic Administration.



## CHAPTER II

### PUBLIC SECTOR TO-DAY

Prior to the commencement of planning for economic development, activity in the public sector was confined to sectors like railways, ports, communications, broadcasting, irrigation and power and a few departmental industrial undertakings such as the ordnance factories, railway workshops and P & T workshops. Since then, the growth and expansion of the public sector has been phenomenal. To-day, public undertakings cover a vast and varied range of activities, e.g., mining and metallurgy; manufacture of electrical goods, machine tools, chemicals and fertilisers; building of ships, aircraft and locomotives; building and construction; oil exploration and refining; provision of air, sea and road transport; industrial financing and writing of life insurance. Except for the nationalisation of life insurance and air transport and the acquisition of interests of previous owners of a few units like the Praga Tools, the Hindustan Shipyard, the Hindustan Zinc, etc., the expansion of the public sector represents the entrepreneurial effort of the State.

2. The administration of public undertakings has now assumed a vital significance for the economic development of the country. The setting up of public enterprises has proceeded in accordance with the industrial policy of the Government embodied in two Resolutions issued in April 1948 and April 1956. The Industrial Policy Resolution of 1948 called for a dynamic national policy directed to a continuous increase in production by all possible means together with measures to secure its equitable distribution. For implementing that policy, the Resolution stressed the need for the State to play a progressively active role in the development of industries. The Resolution made it clear that 'for some time to come, the State could contribute more quickly by expanding its present activities where it is already operating and by concentrating on new units of production in other fields rather than acquiring and running existing units'. The public and private sectors were thus given complementary roles in promoting industrial development. The manufacture of arms and ammunition, production and control of atomic energy and the ownership and management of railways were to be the exclusive monopoly of the State and the responsibility for setting up new undertakings was reserved to the State in six basic industries—coal, iron and steel, aircraft manufacture, ship-building, mineral oils, and manufacture of telephone, telegraph and wireless apparatus (excluding radio receiving sets).

3. The initiative and direct participation in the industrial sphere by the State were thus in a comparatively restricted field. The need for further amplification of this policy and for extending the scope and coverage of the public sector arose due to subsequent developments in the political and economic spheres. The Directive Principles



of State Policy enshrined in the Constitution adopted in January 1950 indicated the socio-economic goals towards which the efforts of the State were to be oriented. In the light of these principles, planning for economic development assumed special importance. A national Planning Commission was accordingly set up in March, 1950 and the nation's First Five Year Plan was finalised by the end of 1952. While the First Plan was under implementation, the pursuit of a socialist pattern of society was accepted by Parliament as the principal objective of social and economic policy. With the completion of the First Five Year Plan, it became clear that there was urgent need for accelerating the pace of economic development through the expansion, among others, of heavy industries. Taking these changes and needs into account, Government reformulated their industrial policy in April, 1956.

4. The Resolution of 1956 declared that: "The adoption of the socialist pattern of society as the national objective, as well as the need for planned and rapid development, require that all industries of basic and strategic importance, or in the nature of public utility services, should be in the public sector. Other industries which are essential and require investment on a scale which only the State, in present circumstances, could provide, have also to be in the public sector. The State has, therefore, to assume direct responsibility for the future development of industries over a wider area".

5. The Resolution classified industries into three categories. In the first category were placed the industries the future development of which was to be the exclusive responsibility of the State. The second category consisted of industries which would be progressively State-owned and in which the State would, therefore, generally take the initiative in establishing new undertakings, but in which private enterprise would also be expected to supplement the effort of the State. The third category included all the remaining industries where future development would generally be left to the initiative and enterprise of the private sector.

6. It is in pursuance of this policy that the Government have set up an increasing number of undertakings and the public sector has come to occupy a commanding position in the economy of the country and to play a crucial role in achieving 'a self-reliant and self-generating economy'. Against this background, we now proceed to survey the picture that the public sector presents to-day.

7. The industrial and commercial undertakings in the public sector can be classified into three groups: (i) undertakings run directly by the departments or executive agencies of the Government; (ii) undertakings run by statutory corporations; and (iii) undertakings run by Government companies registered in accordance with the provisions of the Companies Act, 1956.

8. Of the 76 industrial and commercial undertakings in the Central sector at the end of 1966-67, 70 were Government companies, i.e., companies in which Government's participation was not less than

51 per cent. The remaining six have been set up as statutory corporations and they are :

1. Life Insurance Corporation,
2. Central Warehousing Corporation,
3. Air India,
4. Indian Airlines Corporation,
5. Oil and Natural Gas Commission, and
6. Food Corporation of India.

We are pointing out this fact because many undertakings have been styled as 'Corporations' even though they are Government companies registered under the Companies Act. Thus, the Fertilizer Corporation of India, the Indian Oil Corporation, the State Trading Corporation, etc., are actually companies and not statutory corporations.

9. A noticeable feature of our public sector is the existence of more than one undertaking with an independent legal status functioning in the same field of industry, e.g., oil refineries and pharmaceuticals. On the other hand, certain big enterprises include more than one operating unit. Thus, the Hindustan Steel Ltd. administers five projects—the three steel plants located at Bhilai, Rourkela and Durgapur, the Alloy Steel Plant at Durgapur, and the coal washeries at Durgapur and elsewhere. The Bokaro Steel Ltd., however, stands outside this big enterprise. Similarly, the Bharat Heavy Electricals Ltd. has five operating units—the High Pressure Boiler Plant at Tiruchirapalli, the Heavy Electricals Equipment Plant and Central Foundry Forge Plant at Hardwar, the Heavy Power Equipment Plant and the Switchgear Unit at Hyderabad. This multi-unit enterprise in the electricals sector used to be part of an even bigger enterprise from which it was separated. The residuary unit remaining after separation was the Heavy Electricals Ltd., Bhopal.

10. The volume of investment made in the public undertakings in the corporate sector has increased enormously since Independence. During the period of the Third Plan, the investment in the shape of equity and loans in the undertakings of the Central Government rose from Rs. 953 crores to Rs. 2,415 crores. The corresponding investment at the commencement of the First Five Year Plan was only about Rs. 29 crores. Further investments have been made after the close of the Third Plan period and the latest available figures show that the investment in the Central Government undertakings is now of the order of Rs. 2,930 crores. The Draft Outline of the Fourth Five Year Plan envisages an investment of Rs. 3,408 crores in the industrial and commercial undertakings in the Central sector. The total investment in the corresponding undertakings in the States was about Rs. 2,000 crores at the end of the Third Plan.

11. Quite often, the public undertakings are criticised on the ground that the returns from them are very meagre as compared to private enterprises. The Study Team has drawn attention to several special features of the public sector which are often disregarded in making critical statements on the performance of public enterprises. It has pointed out that a substantial amount of investment is as yet tied up in undertakings under construction and further that it would

not be fair to expect the promotional and developmental undertakings to give commercial returns on the capital invested in them. Having regard to these considerations, the Central Government undertakings can be broadly classified in the following categories :

Category	Number	Investment as at the end of Third Plan period (Rs. in crores)
(i) Undertakings under construction .. ..	17	332
(ii) Running concerns:		
Hindustan Steel .. .. .	1	960
Undertakings other than Hindustan Steel ..	39	899
(iii) Promotional and Developmental undertakings ..	14	217
(iv) Financial institutions (including Life Insurance Corporation) .. .. .	3	7
Total ..	74	2,415

12. The performance of the running concerns during 1965-66, the latest year for which data are available, has shown a decline in terms of net profits. Although the turnover of the largest public undertaking, viz., the Hindustan Steel Ltd. increased from Rs. 205 crores in 1964-65 to Rs. 239 crores in 1965-66, the net profit earned by this undertaking declined from Rs. 2.1 crores to Rs. 1.7 crores. Of the remaining 39 running concerns, 30 earned profits, one broke even and 8 others incurred losses. The overall financial results of these undertakings in broad terms, are as shown in the following statement :

	1965-66	Previous year
	(Rs. in crores)	
(A) Net profit earned (after providing for depreciation, interest and tax) :		
Hindustan Steel .. .. .	1.7	2.1
Running concerns other than Hindustan Steel ..	15.8(30)	19.1(29)
Total (A) ..	17.5	21.2
(B) Loss incurred .. .. .	7.9(8)	2.4(4)
Total net profit (A)—(B) ..	9.6(39)	18.8(34)

NOTE : Figures in brackets indicate the number of undertakings. As stated above, in the case of one undertaking, there was neither profit nor loss in 1965-66.

13. Even for the undertakings which have been brought under the category of 'running concerns', note has to be taken of the fact that a portion of the amount invested in them is tied up in projects under construction or in partial production. It is, no doubt, true that the return on capital employed in the public undertakings has been on the low side, though most of this capital relates to heavy industrial plants which usually have long gestation periods. In the year 1965-66, the pattern of investment industry-wise was as follows:

Category								Investment (Rs. in crores)
Steel	..	..	..	..	..	..	..	981
Engineering	..	..	..	..	..	..	..	490
Petroleum	..	..	..	..	..	..	..	295
Chemicals	..	..	..	..	..	..	..	220
Mining and Minerals	..	..	..	..	..	..	..	181
Aviation and Shipping (including ship-building)	..	..	..	..	..	..	..	131
Financial institutions	..	..	..	..	..	..	..	7
Miscellaneous	..	..	..	..	..	..	..	110
								2,415

14. It is clear that most of the investment has been on heavy industries and in areas where trained man-power and technical know-how was generally not available in the country. Also, these projects were set up, more or less, to force the pace of economic development and their managements very often found themselves entrusted with the responsibility of operating a large and sophisticated complex without adequate support from ancillary industries. The large capital outlay on these projects, with tied foreign aid, necessitates the provision of sizeable amounts towards depreciation. During the Third Plan period, the Central Government undertakings set aside Rs. 218 crores towards depreciation. This makes it difficult for managements now to secure a high rate of return on the capital invested in these projects.

15. In judging the performance and shortcomings of the public enterprises, it is important to bear in mind certain features which distinguish them from the enterprises in the private sector. The public undertakings are, no doubt, enjoined to observe business and commercial principles, but it is obvious that the profit motive cannot be such an overriding factor in their case as it is in private enterprise. For example, in State trading, location of projects in backward regions, or operation of domestic air services on uneconomic routes, public interest rather than profit motive is the deciding factor. Public undertakings also face problems in securing managerial personnel of high quality. It was but natural that in the beginning, most of the managerial personnel in the public undertakings should have come from Government departments and not from the industrial and commercial fields. For several reasons, the terms and conditions of service in the public undertakings have to bear a relation to those prevailing in the Government departments. This makes it difficult

for them to procure the services of persons well versed in management skills to the same extent that the enterprises in private sector can do.

16. It cannot be gainsaid that the public undertakings in India have served as powerful instruments for achieving social and economic objectives. Serious gaps in the economy, particularly in the field of heavy industries, such as manufacture of steel, heavy machine tools, heavy electricals equipment, exploration and refining of oil, manufacture of heavy chemicals and fertilisers and the indigenous production of defence equipment have been overcome through public enterprise. For instance, the total production of steel ingots which was entirely in the private sector, was 1.5 million tonnes in 1950-51. It increased to 6.2 million tonnes in 1965-66, with the Hindustan Steel alone producing 3.44 million tonnes. The production of crude oil recorded a significant rise during the Third Plan period itself, rising from less than half a million tonnes in 1960-61 to 5 million tonnes in 1965-66. The production of machine tools increased from Rs. 30 lakhs worth of goods in 1950-51 to Rs. 23 crores in 1965-66. In addition to machine tools, the Hindustan Machine Tools now makes annually about 2½ lakh watches. In the field of heavy electricals, considerable advance has been made although the units of Bharat Heavy Electricals are yet to come into normal production. The sales of heavy electricals equipment made by Heavy Electricals, Bhopal, was Rs. 5.8 crores in 1964-65 and Rs. 7.43 crores in 1965-66. Dependence on imports for goods in these sectors has shown a marked decline in recent years. In 1960-61, 91.6 per cent of the total supply of machine tools had to be imported; this figure had come down to 44.6 per cent by 1964-65. As regards petroleum products (other than kerosene), the percentage of imports of total supply went down from 91.5 to 1.6 during the same period. The considerable savings in terms of foreign exchange can easily be inferred from these data. Perhaps of even greater importance is the extent of progress achieved in the manufacture of a wide range of equipment needed for defence, such as military tanks, jet aircraft and electronic devices.

17. An important economic objective of State enterprises in India, which has come to be increasingly recognised in recent years, is the generation of surpluses for purposes of further development. Such a contribution to the accumulation of capital by public enterprises is particularly important in view of the limits to the raising of taxes and to the floating of loans for developmental purposes. The Industrial Policy Resolution of April 1956 states that: "it is to be expected that public enterprises will augment the revenue of the State and provide resources for further development in fresh fields". At the end of the Third Plan period, the total internal surpluses generated by the public undertakings of the Central Government were of the order of Rs. 287 crores. Of these, Rs. 69 crores were retained by the enterprises for self-financing, and as much as Rs. 218 crores were utilised towards provision for depreciation. The Draft Outline of the Fourth Five Year Plan envisages a surplus of Rs. 760 crores from the Central Government enterprises (excluding railways) and Rs. 325 crores from the enterprises of the State Governments.

18. The public sector undertakings have also helped in reducing the regional imbalances through a planned dispersal of the new industries. Broadly speaking, Government have kept in view the claims of the relatively backward areas in locating new public sector enterprises in so far as this could be done without disregarding the essential economic and technical considerations. Thus, steel plants have been located in Madhya Pradesh, Orissa, West Bengal and Bihar; fertiliser factories in Bihar, Orissa, Assam, U.P., Kerala, Punjab and Maharashtra; precision instruments factories in Rajasthan and Kerala; and the new machine tools plant in Rajasthan.

19. Other important objectives of public enterprises are : (a) increasing opportunities for gainful employment; and (b) prevention of concentration of economic power in private hands. Employment has increased considerably with the expansion of the public sector. The number of employees in the Central enterprises other than railways, Posts & Telegraphs, and ordnance factories increased from about 1.54 lakhs in 1959-60 to 4.7 lakhs in 1965-66.

20. The growth of investment in the public sector helps to reduce the concentration of economic power in private hands. The share of the public sector as a whole in the reproducible tangible wealth of the country which was about 15 per cent in 1950-51, increased to 35 per cent by the end of the Third Plan period. The progressive increase in the assets of the public undertakings implies increasing control of the country's economy in the public interest.

21. While the public enterprises have strengthened and diversified the Indian economy and given impetus to economic growth, their working has also revealed defects which need to be removed with a view to improving performance in the future. Several public sector projects have taken longer in construction than originally estimated, due to defects in planning and delays in sanctions. Capital expenditure has been avoidably high in many projects resulting in over-capitalisation. Examples of such projects are the Heavy Electricals at Bhopal, the steel plants of Hindustan Steel, and some of the fertiliser units, particularly the one at Trombay. In many projects expenditure has been excessive on townships, houses constructed for higher executives, administrative buildings and guest houses.

22. Several public sector projects have accumulated substantial losses. By the end of the Third Plan period, the Hindustan Steel had accumulated losses of about Rs. 60 crores, the Heavy Electricals, Bhopal, of about Rs. 26 crores, the Neyveli Lignite Corporation of about Rs. 4.5 crores and the National Mineral Development Corporation of Rs. 2.5 crores. Losses of lesser magnitude have also accumulated in the case of several undertakings, such as the National Coal Development Corporation, the National Buildings Construction Corporation, and the Fertilisers and Chemicals Travancore Limited. It is, of course, true that in projects having long gestation periods, losses or low returns are inevitable in the beginning. However, even after making allowances for this factor, we find that there have been other causes too which have contributed to the accumulation of losses to a substantial extent. Thus, over-capitalisation is one of the main causes. In some cases, the implementation of expansion programmes before a project reached full production, as in the case of

the Hindustan Steel, or inadequate utilisation of installed capacity, as in the case of the Heavy Engineering Corporation, Ranchi, and the Heavy Electricals, Bhopal, have also contributed to the accumulation of losses. There are also a few cases where losses could be attributed to shortcomings of the concerns themselves.

23. Perhaps, the most important failure of the public sector has been its inability to develop to the requisite extent its own resources of managerial and technical personnel and its continued dependence on foreign engineers and technicians and deputationists from Government. Progress has also been tardy with regard to the setting up of the necessary designing and consultancy organisations. Of equal significance is the failure to achieve healthy labour-management relations in several public undertakings. Little headway has been made in evolving and introducing effective incentive schemes.

24. Further, neither in quality nor in price have some public undertakings brought full satisfaction. Many kinds of special steel have still to be imported because the public sector steel plants are yet to achieve the needed quality of manufacture. In the case of basic products like steel and fertilisers it has not been possible to keep prices within reasonable limits. With the recent increase in steel prices, the position now is that the price of steel in India, as compared to the domestic price prevailing in other countries, is higher by about 25 to 30 per cent. The position is even worse in the case of fertiliser which is a basic agricultural input. With the recent revision of fertiliser prices,\* the agriculturists now have to pay about Rs. 2,343 per tonne for ammonium sulphate and Rs. 1,826 per tonne for urea. These prices are 75 to 100 per cent higher than those prevailing in other countries. Whatever may be the special and compelling reasons for these high prices in India, it is unfortunate that the Indian farmer, about the poorest in the world, is required to pay for his fertiliser, prices which are about the highest in the world.

25. The organisational structure devised for the management of the public undertakings has also several deficiencies. The top management, consisting primarily of 'policy-making' type of governing boards have largely been unable to give sustained and positive direction to persons at the operating level. There is too much of official representation and too little of technical talent on the governing boards. The position is also not satisfactory in regard to devolution of adequate powers on the top management boards and their delegation to the operational levels. While the spread of Government control has been wider than necessary, the control exercised by Government at certain key points has not been effective. The demarcation of responsibilities between the Government and the public undertakings is also not sufficiently clear-cut and this tends to erode the autonomy of the public undertakings.

26. We have, in appropriate chapters of the report, made recommendations for overcoming the defects outlined above. Here, we refer briefly to the guiding principles in the light of which we have formulated the recommendations.

---

\* These prices are in terms of per metric tonne of plant nutrient.

27. In the first place, there is the basic consideration of vesting each operational unit with powers which are necessary for its functioning with speed and efficiency, and without hindrance and interference from outside in its day-to-day administration. It would be futile to give powers and authority to the operational units if they are prevented from exercising them effectively by imposing frustrating curbs and controls.

28. Secondly, it is essential to take a long-term view of the needs, requirements and problems of the future development of different sectors of public enterprise. It is highly important that strong management institutions are developed in different sectors of industry to take care of their promotional and developmental needs and for planning of future expansion.

29. In the third place, no organisational reforms can be effective unless special attention is devoted to the human factor, both at the managerial and the operating levels. It is, therefore, necessary that personnel of all categories should be helped and encouraged to develop the requisite will, attitudes and a sense of belonging as well as necessary abilities, skills and *esprit de corps* required for forging public enterprises into an effective instrument for economic advance and national welfare.

30. Lastly, we would like to emphasise that nationalization or socialisation does not mean bureaucratisation. Not only should the public enterprises have the maximum possible autonomy to function on sound business and commercial lines, they should also be responsive to the needs and interests of the community. Unlike the private sector where profit is the motive force, the main objective in the public sector ought to be public good. Besides promoting and sustaining economic growth, public enterprises should strive to supply the community products and services of standard quality and at reasonable prices.

31. Planned economy and growth of the public sector in a big way are difficult without a total national effort. In this context, the performance of the public sector should be such as to inspire confidence and a sense of pride in the minds of the people. The damage to national economy as a result of miscalculation or mismanagement of these enterprises cannot be tolerated with equanimity by the people who ultimately have to bear the burden of not only providing the capital but also of having to pay high prices for their products.

32. Considerable experience has now been gained in the setting up and running of large and complex enterprises. With systematic effort, it should be possible to profit from this experience in not only increasing the resources generated by the public undertakings but also in reducing capital costs of future public sector projects. Necessary changes have also to be brought about in the management organisation of public enterprises. The procedures obtaining in the Government as well as in the public undertakings have to be improved to enable the undertakings to function along sound business and commercial lines. The relationship between Parliament, Government and public undertakings needs to be reoriented to enlarge the autonomy of the public undertakings but preserving none the less the essential features of accountability. These, in the main, are the issues we deal with in the subsequent chapters of our Report.



## CHAPTER III

### ORGANISATIONAL STRUCTURE

#### Forms of Organisation—Statutory Corporations and Government Companies

The problems facing the public undertakings to which we have drawn attention in the previous chapter are deep-rooted. We are convinced that an overhaul of the system is needed to ensure that the affairs of the undertakings are efficiently managed and the underlying objectives are adequately achieved. It has to be recognised that the public undertakings are only a means to an end and, therefore, what is necessary is to ensure that the means do secure the end. The first problem to which we consider it necessary to address ourselves is the organisational structure of these undertakings.

2. The present organisation of public undertakings reflects a marked preference for the Government company form. The table below gives a classified statement of the public undertakings of the Central Government as at the end of 1966-67.

Nature of undertaking	Government companies	Statutory corporations	Total
Industrial and Manufacturing .. ..	45	..	45
Public Utilities and Services .. ..	4	2	6
Promotional and Developmental .. ..	5	2	7
Commercial and Trading (including construction agencies & hotels)	14	1	15
Financial institutions (including Life Insurance Corporation)	2	1	3
Total	70	6	76

The original intention was to set up public undertakings in the form of statutory corporations. The Government company form was introduced subsequently some years after the first Industrial Policy Resolution. The principal merit of the company form that appears to have appealed to the Government is the flexibility that it provides for subsequent reorganisation. In the case of statutory corporations, Government have to seek approval of Parliament every time they introduce a change in the organisational structure or bring into existence a new undertaking. As Parliament cannot directly manage the undertakings, it is inescapable that it should repose trust in their boards of management. This could be better secured if Parliament were to approve, after discussion, the setting up of the undertakings through legislation or a resolution. Such a procedure would also facilitate investing them with the requisite measure of autonomy.

3. In the beginning, the policy of setting up public undertakings as companies had come in for much criticism, the main points of this criticism being :

- (i) the undertaking set up as a Government company evades the constitutional responsibilities which a State-owned enterprise owes to Parliament;
- (ii) the law regulating limited companies becomes a mere fiction as all or most of the functions normally vested in the shareholders and management are with the Government;
- (iii) a meeting of shareholders in the case of a Government company is meaningless as declaration of profits and appointments to the Board rested with the Government; and
- (iv) the extent of autonomy provided could be reduced by the executive agencies of the Government.

4. The Estimates Committee in their 80th Report (April, 1960) took note of this criticism and recommended that all wholly State-owned public undertakings should generally be in the form of statutory corporations. The company form should be an exception to be resorted to only when Government have in an emergency to take over an existing enterprise or have decided to launch an enterprise either in association with private capital or with a view eventually to transferring it to private management. In their reply to this recommendation given in September, 1962, Government contended that the 'Company form was advantageous in that it allowed the flexibility and autonomy for the successful operation of commercial enterprises and also provided for Parliamentary control over the companies under the special provisions of the Companies Act'.

5. We have carefully considered all the aspects of the question whether a statutory corporation or a Government company is the more suitable form. We believe that there is an important advantage in adopting the form of a statutory corporation as compared to company form. Statutory corporations are set up after full public debate and with the approval and sanction of Parliament. This leads to a clear and precise definition of their objectives and obligations. It also results in a clear demarcation of powers between the Government and the public undertaking. Further, Parliament, having vested autonomy in the undertaking through an enactment, will itself take care to ensure that such autonomy is fully recognised by the executive agencies of the Government.

6. In certain cases, however, the company form is preferable. For instance, the company form is more appropriate for undertakings which have an element of private participation. It is also desirable for those undertakings which are predominantly trading concerns or which have been set up to improve or stabilise a particular area of business, as in the case of the construction undertakings, the trading corporations and hotels. Further, when it is necessary to set up an undertaking which is comparatively small in size and it is to be given an independent legal status, a company may be floated for the

purpose. This will obviate the need for the elaborate procedure required for setting up a statutory corporation.

### **Recommendation 1**

**We recommend that :**

- (1) The form of a statutory corporation should in general be adopted for public sector projects in the industrial and manufacturing field.**
- (2) For projects in which there is an element of private participation, the Government company form may be adopted.**
- (3) Promotional and developmental agencies should, as far as possible, be run as statutory corporations or departmental concerns.**
- (4) Undertakings which are predominantly trading concerns or which are set up to improve and stabilise particular areas of business may have the company form.**

### **Sector Corporations**

7. There is a great need for coordination and provision of common services among public sector undertakings operating in the same field. The failure to take this need into account at the planning stage is one of the most unsatisfactory features relating to the setting up of public undertakings by Government. The Study Team has remarked that "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". Theoretically, it may be possible to achieve coordination at the level of the Ministry responsible for a particular area of public enterprise but the problem becomes more complicated in the case of undertakings which are under the control of more than one Ministry. Apart from this, at the Government level it is only the important issues of policy and the size and direction of investment alone which would attract some attention. Even in this respect we have noticed deficiencies in the manner in which such attention has been given by Government.

8. We find cases where new projects have been set up without utilising the organisation already built up in running multi-unit undertakings and without entrusting to it the management of the new projects. For instance, in the setting up of the Cochin Refineries, the managerial and technical expertise of the Indian Oil Corporation was not utilised. A new undertaking styled as Machine Tools Corporation of India has recently been set up as a separate Government company, in spite of the existence of the Hindustan Machine Tools in the same field. There are cases in which the existing multi-unit undertakings have been bifurcated, such as the Heavy Electricals Limited, the State Trading Corporation of India and the Heavy Engineering Corporation. Cases also exist where a new Government company has been set up more or less at the expense of an

organisation that had already started developing in a multi-unit undertaking. Such unsystematic and needless proliferation leads to fragmentation of the total industrial effort in the public sector. We feel that in allowing this proliferation to take place, and in failing to set up integral statutory authorities in coherent sectors of public enterprise, we have not only denied ourselves the benefits of large-scale operations but have also missed a major purpose of nationalization of key sectors of our economy.

9. We notice that in other countries the policy generally has been to set up an integral authority in a nationalized sector to which is entrusted the general responsibility for promotion and development in that sector. We are of the view that such sector corporations should be set up in India in major areas of public enterprise. We recognise, of course, that a sector corporation should not be allowed to crush under the weight of its authority and size the operational autonomy of its units. It should, if properly operated, enable the units to secure a measure of freedom from control by Government in fields where a purely departmental approach would not be desirable.

10. The setting up of sector corporations should not result in their functioning as large monopolies in the public sector eliminating competition among units producing a similar range of products or providing similar services. We have to preserve the managerial personality of the constituent units by giving to each of them a financial framework within which it is to operate and against which its performance is to be evaluated. The budget, accounts and performance data of each of the units should be separately compiled. This would help to infuse in them a spirit of healthy competition. It will also facilitate a comparative appraisal of the success achieved by different units in reducing costs and increasing productivity.

11. The advantages of setting up of a single integrated corporation in each major sector of industry may thus be summarised as follows :

- (i) it will avoid the fragmentation of the industrial effort 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 by the corporation;
- (iii) it will make Government control more effective by keeping it confined to a few vital and strategic points;
- (iv) it will help to achieve the economies of large-scale operations and the establishment of otherwise expensive staff organisations and of common service facilities in the fields of research and consultancy, training of personnel and sales promotion; and
- (v) it will lead to better personnel management, uniformity in the terms and conditions of service of employees, wider prospects for the managerial and technical personnel and the development of managerial resources in the public sector.

12. Sector corporations may be established for running the industrial and manufacturing concerns of the Government in the following areas :

- (i) Iron and Steel;
- (ii) Engineering and Machine Tools;
- (iii) Electricals;
- (iv) Coal and Lignite;
- (v) Petroleum and Petro-chemicals;
- (vi) Mining of iron and other ores and mining and processing of non-ferrous metals;
- (vii) Fertilisers; and
- (viii) Chemicals and Drugs.

In demarcating the above areas, we have slightly modified the recommendations of the Study Team by sub-dividing two of the items recommended by it and constituting separate corporations for "Electricals" and for "Chemicals and Drugs". This sub-division has been made in view of the need to achieve a greater measure of homogeneity in the activities of the units proposed for inclusion in the same sector.

13. Besides corporations in the industrial and manufacturing field, two more corporations may be set up, one for Aviation and the other for Shipping. In our view, there are marked advantages in replacing the two existing statutory air corporations by a single corporation with two operating units. The types of specialists and technicians who are recruited by the Air India and the Indian Airlines Corporation are the same. The wage structures of the two corporations are more or less the same and on important routes the aircraft requirements are similar. There are possibilities for having common offices, workshops and other establishments and thereby reducing costs. Even the boards of managements of the two air corporations have been, more or less, the same for some years. Similar considerations apply to the two shipping lines, viz., the Shipping Corporation of India and the Mogul Line Ltd., which are under the control of the Ministry of Transport and Shipping. These two shipping lines and the allied concern of Hindustan Shipyard which is also under the control of Ministry of Transport and Shipping may be brought into a single Shipping Corporation.

14. The advantages of establishing sector corporations may also be derived in the case of hotels. The two Government companies in this field, viz., the Ashoka Hotels and the Janpath Hotels may be combined with the India Tourism Development Corporation to form a single sector corporation. This would involve the transfer of these hotels from the control of the Ministry of Works, Housing and Supply to the Ministry of Tourism and Civil Aviation. Bringing the administration of Government owned hotels under the Department of Tourism has also been recommended by our Study Team on the Machinery of the Government of India.

15. We anticipate a great expansion in the field of electronics. It would be advantageous if this field is entrusted to a sector corporation responsible for the promotional and developmental activities in that field.

16. In our recommendations concerning the formation of sector corporations we have not included Defence undertakings. These will be considered in our report on Defence Matters.

17. In some of the areas mentioned above, there are a few undertakings, e.g., Cochin Refineries and Fertilisers and Chemicals Travancore Ltd., which have an element of private participation in the capital invested in them. In future, also, there will be occasions when it would be necessary to put up new projects having private capital participation. With the creation of sector corporations, the responsibility for setting up and management of such projects should devolve on these corporations. We feel that it would be advantageous if the State-owned shares held in these undertakings are transferred to the sector corporation concerned.

## **Recommendation 2**

**We recommend that :**

- (1) All the industrial and manufacturing concerns in the areas mentioned in paragraph 12 and the concerns in the fields of air transport, shipping and hotels and tourism should be grouped into sector corporations as indicated in Annexure. The State-owned shares in an undertaking in which there is private participation should be transferred to the sector corporation.
- (2) A sector corporation should also be set up in the field of Electronics when a programme for a large-scale expansion in this field is decided upon.

## *Functions of Sector Corporations*

18. A clear statement of the functions assigned to the sector corporations, the powers reserved to Government and the powers that should be delegated to the operating units of the corporation can serve as the basic safeguard against both the erosion of autonomy of the corporation by the agencies of the Government and the undue concentration of powers at the corporation level. We are anxious that the new sector corporations should refrain from exercising undue administrative control over the constituent units and should concentrate attention on their special responsibilities for promotion of research and development, provision of designing and consultancy services needed by the constituent units, coordination in recruitment and training of personnel and providing other common service facilities which can be more economically provided from a central point. The sector corporations can play an important role in scrutinising the internal budgetary programmes of the enterprises, developing information and reporting systems needed for management control, and making a comparative appraisal of performance. They can also provide an effective machinery for the speedy disposal of grievances and complaints pertaining to maladministration and abuse of authority by officers subordinate to the corporation. The other important

duties of the corporation will be : to ensure, as far as possible, uniformity in wage structure, to determine the broad recruitment and promotion policy that should be followed by constituent units and to lay down scales of amenities to be provided to employees, with a view to achieving economy in expenditure on housing and other facilities. Within this framework, the aim should be to devolve full operational autonomy on the constituent units so that the project managers are able to carry on the day-to-day administration of the units without interference from above.

### **Recommendation 3**

**We, therefore, recommend that :**

- (1) The powers of the Government *vis-a-vis* the sector corporations and the functions of the corporations should, in general, be as follows :**

#### **Powers reserved to the Government :**

- (i) to appoint the Chairman of the corporation and the Government representatives on the board of the corporations;**
- (ii) to appoint, in consultation with the Chairman, other members of the board of the corporation;**
- (iii) to give directions to the corporation as to the exercise and performance of its functions in matters involving national security or substantial public interest and to ensure that the corporation gives effect to such directions;**
- (iv) to call for such returns, accounts and other information with respect to the property and activities of the corporation as may be required from time to time;**
- (v) to authorise the amount of capital to be raised and the terms and conditions on which it may be raised;**
- (vi) to approve the corporation's five-year and annual plans of development and the corporation's capital budget;**
- (vii) to approve the corporation's revenue budget in case there is an element of deficit which is proposed to be met by obtaining funds from the Government; and**
- (viii) to approve agreements involving foreign collaboration proposed to be entered into by the corporation and to approve purchases and contracts of a major nature involving substantial capital outlay which are in excess of the powers vested in the corporation.**

#### **Functions of the Sector Corporations :**

- (i) to advise the Government on general matters affecting industry in the public sector;**

- (ii) to promote and develop industry in the public sector including the setting up of new projects in accordance with the Plan;
  - (iii) to promote, provide or coordinate activities relating to—
    - (a) training of personnel;
    - (b) research and consultancy;
    - (c) sales promotion; and
    - (d) such other common services as the constituent units may agree to be provided by the corporation;
  - (iv) to evolve a common policy for the wages and salaries and other terms and conditions of service of the employees of the corporation;
  - (v) to approve the revenue budgets of the constituent units;
  - (vi) to scrutinise the capital budgets of the constituent units and submit a consolidated budget to the Government;
  - (vii) to make appointments to posts below the board level in the sector corporation;
  - (viii) to appoint the chief executives of the constituent units in consultation with the Government;
  - (ix) to appoint heads of departments in the constituent units in consultation with the chief executive of the unit concerned;
  - (x) to call for such returns, accounts and other information with respect to properties and activities of each of the constituent units as the corporation may require from time to time;
  - (xi) to secure the largest degree of decentralisation consistent with the proper discharge by the corporation of their duties and functions; and
  - (xii) to set up an effective machinery for the speedy disposal of grievances and complaints pertaining to maladministration and abuse of authority by officers subordinate to the corporation.
- (2) Subject to the above, all the necessary powers required by the constituent units to discharge their duties and functions should be conferred on the managements at the unit level.

#### *Management Boards of Sector Corporations*

19. In every public undertaking, the responsibility for overall management has been vested in a governing board. In general, there has been a marked preference for a board in which most of the members are part-time. In a few cases, like the Indian Oil Corporation, the State Trading Corporation of India and the Oil and Natural Gas Commission, a few full-time functional directors have also been appointed. Most of the directors of Government companies and the members of the governing boards of the statutory corporations are



Government officers. The boards exercise general supervision over the affairs of the undertakings, meet periodically and give directions and sanctions to the management.

20. The Study Team has reported that the system of having boards of this type has not worked well. The part-time directors have seldom been able to devote sufficient time and attention to their work. It has not even been possible for them in many cases to attend the meetings of the boards. Part-time directors have not been able to give that sustained and systematic attention which the affairs of the undertakings require. It is also argued that in the present scheme of things where broad policies are laid down by the Government and the responsibility for carrying on the day-to-day administration is vested in the chief executive, there is only a small area left in which this type of board can function. Such a board has sometimes been criticised as being ineffective and even redundant.

21. The alternatives to a policy-making type of board are either a fully functional board like the Railway Board or a mixed type of board which includes both full-time functional and part-time members. An example of the latter type is that of the Indian Oil Corporation. We feel that fully functional boards for public undertakings will neither be feasible nor desirable. There has to be an element of Government representation on the board which will necessarily require the presence of part-time members. We would like to emphasise, however, that the official nominees on the board should represent the Government as a whole rather than any one Ministry and that their selection should be made in the light of the qualifications that they possess rather than on their being attached to a particular Ministry. This will enable selections to be made from a wider field and avoid frequent changes arising out of transfer of the officer concerned from one Ministry to another. It should be ensured that Government's nominees are selected on the basis of their competence to deal with problems which are considered at the board level and that they are fully posted with Government's views.

22. It would be advantageous to bring into the board "outsiders" with a fresh outlook. This can be done by including two or three part-time members who have established outstanding reputation in the field of industrial, commercial or financial enterprise, in public administration or in trade union organisation. The presence of such part-time members, who are not directly connected with the operations of the undertakings will enable the board to view proposals with a broader outlook. Persons selected for part-time membership of the board should naturally be imbued with faith in public enterprise and should not have such business or other interests as may affect their objectivity in discharging their duties on the board.

23. We have considered the desirability of including a representative of the workers on the board of management. Such an arrangement, if worked in the proper spirit, can have a number of advantages. It can give the workers a greater sense of participation in the management of the enterprise and in turn the board will have the benefit of the viewpoint of the workers. However, the experience of some other countries in this regard does not fortify us in making such a recommendation at the present stage of our socio-economic development. However, the presence of a non-official member who

has had long and intimate experience of working in the trade union organisations would be of advantage.

24. We have taken note of the objection sometimes made against the functional or mixed type of board that it blurs the authority of the chief executive and leads to friction between him and the full-time directors. The example of Hindustan Steel where the experience of having full-time directors on the board did not prove to be successful is also at times cited. We have considered this carefully and feel that the mixed type of board tried in the Hindustan Steel did not come up to expectations because of certain special factors and not because of any inherent defects in the system. One instance where the system did not work as expected under some special circumstances should not deter us from adopting a pattern which is not only logical but which is also the general pattern prevailing in the larger enterprises both in the public and the private sectors all over the world. We are of the view that chances of friction between the chief executive and others on the board will be minimised if the proper role and importance of the authority of the chief executive is appreciated and respected both by the board and the administrative Ministry.

#### **Recommendation 4**

**We therefore, recommend as follows :**

- (1) **The boards of management of sector corporations should be of a mixed type. The board should consist of—**
  - (a) **a full-time Chairman-cum-Managing Director;**
  - (b) **full-time functional directors, their number depending on the needs of the case;**
  - (c) **not more than two part-time Government representatives; and**
  - (d) **two or three part-time members from outside the Government.**
- (2) **The Government representatives should be selected on the basis of their qualifications and experience and not by virtue of the office which they hold in a particular Ministry.**
- (3) **Part-time members from outside the Government should be persons with proven ability in the fields of industrial, commercial or financial enterprise or in administration or in trade union organisation. These qualifications should be laid down in the Act, or in the case of Government companies in the Articles of Association. These members should have faith in public enterprise and should not have such business or other interests as may affect their objectivity in the discharge of their duties on the board.**

#### *Structure Below the Corporation Level*

25. The organisational structure below the corporation level can be devised in different ways. One way is to give independent legal

status to the constituent units also. This would make the organisational structure of the public sector multi-tiered as is the pattern prevailing in Italy where the top management institutions, the IRI\* and ENI†, are statutory corporations and the subsidiary units are companies. Another way is to define the organisational structure of the constituent units in the Act setting up the sector corporation and laying down the relationship between the sector corporation and the constituent units. A third alternative is to define the structure of the corporation in an Act and to provide that the organizational structure below the corporation level will be determined by the corporation in consultation with Government.

26. The suitability of any of these alternatives in a particular case would depend on a number of circumstances. For instance, in the case of undertakings which are not wholly owned by the Government we have already suggested that they should continue to have the company form. In the case of such undertakings, therefore, a board of directors will have to be set up as required by the Companies Act. The composition of the board of such units will depend upon the extent of shares held by the Government and the private parties and the agreement between them. It is to be noted that if the State-owned shares are held by the sector corporation, it will not be necessary to include Government representatives on the board of directors of such Government companies. The sector corporation can itself appoint its representatives from among its directors and executive heads of departments to serve on the boards of such companies.

27. The management organisation of a constituent unit which is not in the form of a company would depend upon the size and nature of its operations. In the case of the smaller units, it may be sufficient to have only a single executive, a general manager, functioning directly under the board of the sector corporation while in the case of the larger ones, it may be desirable to set up a committee of management under the chairmanship of the chief executive of the unit. This committee should, however, be of a functional type comprising such heads of departments as may be considered necessary for the purpose. Provision to this effect can either be made in the Act setting up the corporation or the matter can be left to be decided by the corporation in consultation with the Government. From the standpoint of flexibility and for facilitating the changes in circumstances to be taken into account, the latter alternative may have certain advantages. But this very flexibility, we believe, may lead to frequent changes being made in the organisational structure to the detriment of the stability of the management organisation. We have already suggested that the sector corporations should be set up in the form of statutory corporations. We feel that it would be advantageous to provide for the organisation of the constituent units in the Act. Care should, however, be taken to see that this does not lead to undue rigidity, making it difficult to provide for the special circumstances of individual cases, particularly for the units, which may be set up in the future. It would be appropriate, therefore, to lay down the organisational structures of the units in broad terms, leaving an area of flexibility to provide for special needs of individual cases.

\*Istituto per la Ricostruzione Industriale (Institute for Reconstruction of Industry, Italy).

†Ente Nazionale Idrocarburi (the great petroleum complex in Italy).

## Recommendation 5

We recommend that:

- (1) The constituent unit of a sector corporation which has an element of private participation and, therefore, the form of Government company should have a board of directors as envisaged at present under the Companies Act. No Government representatives need be appointed on these boards and the sector corporation which holds the State-owned shares should nominate its representatives from among its directors and the executive heads of departments to serve as part-time members on the boards of such companies. The composition of these boards will depend upon the extent of shares held by the sector corporation and the private parties and the agreement between them.
- (2) For a constituent unit which is wholly owned by the Government, there should be a committee of management if the size and nature of the operations of that unit so require. This committee should be functional and have the chief executive of the unit as the chairman and the heads of key departments as members. For the smaller wholly owned units there need only be a single executive, who may function directly under the board of the sector corporation.
- (3) The organisational structure of the constituent units of a sector corporation should also be defined in the Act setting up the corporation, but only in broad terms so as to enable the corporation to devise specific structures in individual cases in consultation with the Government and within the framework laid down in the Act. Provision should also be made in the Act to enable the corporation to devise the organisational structure for a new unit in the same way.

### *Steps to be taken to set up Sector Corporations*

28. For giving final shape to our recommendations, concerning the setting up of sector corporations, it will be necessary to have a separate law enacted by Parliament for each major area of public enterprise. These Acts should provide for the establishment of a sector corporation in each area and for bringing the existing wholly owned undertakings in the field under that corporation. However, as the enactment of the necessary legislation in this regard may take some time, Government may, to begin with, amalgamate, under the provisions of the Companies Act, all the companies wholly owned by the Government and operating in the same major area of enterprise into one multi-unit company. The State-owned shares in an undertaking which is not wholly owned by the Government can be transferred to the appropriate multi-unit company so formed.\* Thereafter, the multi-unit company may by law be transformed into a statutory corporation. In the case of the oil sector, however, an Act of Parliament will be necessary for bringing together the Indian Oil Corporation, and the Oil and Natural Gas Commission which is a statutory corporation into a single sector corporation.

## Recommendation 6

**We recommend that:**

- (1) Until such time as the necessary legislation is enacted for giving effect to proposals relating to sector corporations, Government may under the provisions of the Companies Act bring about the amalgamation of the existing Government companies which are functioning in the same major area of enterprise and which are wholly owned by the Government and transfer the State-owned shares held in public undertakings not wholly owned by Government to the appropriate multi-unit undertaking. In the amalgamated company, powers and functions will be distributed between the top management and the operating units in a manner similar to that contemplated for the distribution of powers between the sector corporation and the operating units. Subsequently, the multi-unit companies can be transformed into statutory corporations under Acts of Parliament.
- (2) The Indian Oil Corporation and the Oil and Natural Gas Commission should be grouped together to form one sector corporation by an Act of Parliament.

### **Application of the Companies Act to public undertakings**

29. We now take up the question of suitability of the provisions of company law for the public undertakings. Several of the provisions of the Companies Act have little or no meaning in relation to Government companies, e.g., provisions stipulating the holding of annual general body meetings and requiring notices and returns to be filed with the Registrar of Companies. The Articles of Association of the Government companies contain a number of provisions for transferring, making calls on and forfeiture of shares, and imposition of penalties which are of little significance. Under Section 620 of the Companies Act, Government have the power to exempt any Government company from the operation of any provision of the Act. We find that hardly any use has been made of this section. The idea should be to reduce to the minimum the provisions of the Companies Act which need apply to the Government companies since most of their affairs are in any case controlled by Government. The actual provisions that should not apply to a Government company would have to be determined specifically in each case.

30. When shares held by the Government and some Government companies are transferred to sector corporations in accordance with our recommendations made earlier, those companies will lose their status as Government companies. In order that they may continue to be eligible for the relaxations provided for Government companies in Section 620 of the Companies Act, it will be necessary to enlarge the definition of "Government company" so as to include companies not less than 51 per cent of whose shares are held by sector corporations.

**Recommendation 7**

**We recommend that:**

- (1) Full and effective use should be made of Section 620 of the Companies Act for exempting a Government company from such provisions of that Act which are not meaningful in their application to it.**
- (2) The definition of a "Government company" should be enlarged so as to include a company not less than 51 per cent of whose shares are held by a sector corporation.**



## CHAPTER IV

### PUBLIC ENTERPRISES, PARLIAMENT AND GOVERNMENT

#### Relationship with Parliament

Public enterprises are financed from public funds. It follows that they must function within the confines of public accountability. The essential feature of this accountability in a democracy is the supervision and control exercised by Parliament. The need for such supervision and control is all the greater in a country like ours which is committed to the goal of bringing about a socialist pattern of society. We have, therefore, considered it necessary to explore the means whereby Parliamentary supervision over the performance of public enterprises can be made more effective.

2. There are several opportunities for discussion in Parliament on the working of public undertakings. Thus, discussions can take place on the annual report of an undertaking, or during the budget debate, or, as the subject matter of half-an-hour discussion. However, there is no regular programme with a specific time schedule for discussion of the performance of public undertakings. We feel that such a full discussion every year in Parliament is desirable and necessary. For this purpose, the supply of adequate information in a proper manner to Parliament is of great importance. We later discuss the improvements that need to be brought about in the Annual Reports of public undertakings which are submitted to Parliament. It may be noted that with the setting up of sector corporations, Parliament would not be called upon to consider a very large number of Annual Reports as each sector corporation will be presenting one consolidated Annual Report on its working and that of its constituent units.

#### Recommendation 8

**We recommend that Parliament be approached to agree to earmark a number of days for discussion of the working of public sector undertakings.**

3. The most effective form of Parliamentary supervision is the examination by a Committee of Members of Parliament. It also gives the managements in the public sector an opportunity to appear before a Parliamentary Committee and explain their position and problems across the table. A joint Committee of both Houses set up in May 1964 took over 'functions vested in the Committee on Public Accounts and the Committee on Estimates in relation to the public undertakings'. The reports brought out by the Committee on Public Undertakings, have thrown much light on the problems and the working of public undertakings. Inevitably, in the beginning, the Parliamentary Committees had to rely on detailed information elicited from the undertakings through questionnaires issued by them. The Study Team has reported that management of the public sector enterprises have to perform a heavy task in replying to such questionnaires with the care

with which they have to be answered. Incidentally, the Select Committee on Nationalized Industries in U.K. does not follow such a procedure. It transacts its business mostly by discussions 'across the table' based on information contained in Annual Reports of the public enterprises and the memoranda received from the managements of these enterprises on broad issues framed by the Select Committee.

4. We have considered the advantages that would accrue if the Committee on Public Undertakings took up simultaneous examination of a group of undertakings falling within one area of enterprise and brought out a consolidated report thereon. This will enable the Committee to cover, within the time at their disposal, a larger number of undertakings and to examine their problems more deeply. The Committee would also be able to avoid having to reconsider similar issues of different undertakings operating in the same field of industry. It will also make it possible to undertake a simultaneous and comparative appraisal of the performance of different projects in the same area of enterprise. A consolidated report of the Committee will also enable Members of Parliament to acquaint themselves better with the problems on which they should focus their attention.

#### **Recommendation 9**

**We, therefore, recommend that the Committee on Public Undertakings may consider taking up for examination a group of undertakings falling within one major area of enterprise and bringing out a consolidated report thereon.**

5. The Annual Reports of public undertakings should have as their main objective the presentation of adequate information to Members of Parliament in a readily intelligible form. On the examination of the Annual Reports, the Study Team has come to the conclusion that only a few undertakings have been furnishing comprehensive information on their operations and future programmes, and 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 feel that the adoption of a common pattern of reporting and the use of standard operational indices will enable Members of Parliament to keep themselves posted with the working of public undertakings, and make comparative studies.

#### **Recommendation 10**

**We recommend that:**

- (1) The Bureau of Public Enterprises, in consultation with the Ministries and public undertakings, should work out a model form for the Annual Reports of public undertakings. Standard operational indices should also be prepared for use by the public undertakings in order that essential information relating to their working is brought out in the Annual Reports in a readily intelligible form.**



**(2) Each Annual Report should cover *inter alia* the following points: —**

- (a) Information about the adequacy of the quantity and quality of output and reductions in cost;**
- (b) information relating to the utilisation of the principal ingredients of production, viz., labour, materials and installed capacity; in the case of undertakings not concerned with manufacture like transport and trading concerns the corresponding information should relate to factors relevant to such concerns;**
- (c) comparative performance between different parts of the undertaking, between one undertaking and another, and in relation to similar undertakings abroad;**
- (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 costs; and**
- (e) a brief summary of the past operational results with comparisons of the results achieved during a specified period in order to bring out long-term trends.**

6. It is necessary to achieve a proper balance between the requirements of accountability of the enterprises to Parliament and their need for freedom in day-to-day operations. While Parliament must oversee and review the performance of public undertakings with a view to promoting and safeguarding the public interest involved, the manner of achieving this purpose should be such that it does not weaken the initiative of the management and thus affect its efficiency. Too detailed and continuous an examination by Parliament, particularly of day-to-day administration, will compel the responsible Minister to call for more information from public undertakings and insist upon his prior approval being taken even in matters coming within the sphere of management. This will obviously have an adverse effect on the initiative of those responsible for running the undertakings.

7. A general criterion that can be applied to determine the extent of Parliamentary review is that it should not extend to matters of day-to-day administration. While this criterion is easily accepted, difficulties arise when it is applied to individual cases. One way of deciding whether a matter relates to day-to-day administration is to prescribe a set of objectives and obligations for the enterprises and then to treat any act as not being one of day-to-day administration if it directly affects the fulfilment of those objectives and obligations. 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. This test cannot, however, suffice in all cases and there will be instances where Parliament would like to discuss matters which have aroused wide publicity even though seemingly pertaining to day-to-day administration.

8. We have considered the instructions and guide-lines laid down by the Speaker on the scope of the admissibility of questions in Parliament on public enterprises run by corporate bodies. In this connection, the Study Team has stated that: '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 agree with the Study Team and feel that Ministries should not fail to bring to the notice of the Speaker questions which under the rules in force are not admissible. The need for questioning in Parliament on the detailed working of these undertakings should not ordinarily arise in the future in the context of the role and functions that we are proposing for the sector corporations, the Audit Boards, the Bureau of Public Enterprises, the administrative Ministries and the Committee on Public Undertakings and in view of the suggested improvement in the form and content of the periodic reports for discussion.

### **Recommendation 11**

**We recommend that the Ministries should not fail to bring to the notice of the Speaker questions which under the rules in force are not admissible.**

### **Relationship with Government**

9. We have emphasised in an earlier chapter the need for evolving a management and control system in respect of the public enterprises which would strike a right balance between autonomy and control. Excessive external control will inevitably have a frustrating effect on the management, weaken its initiative and restrain it from taking quick decisions on the spot. At the same time, Government must have the power to issue policy directives, exercise strategic control and make the necessary coordination arrangements keeping in view its responsibility for the effective implementation of the socio-economic programmes of the country. It is, therefore, necessary to provide for a proper system of coordination and control of the public undertakings in the corporate sector while adequately safeguarding their operational autonomy. In order to achieve this purpose, the management must be imbued with a spirit of public welfare and dedication to its task and Parliament and Government must repose trust and confidence in the management of the undertakings while being ever-mindful of their obligations to safeguard the public interest.

10. At present the powers reserved for the Government mainly relate to such matters as the appointment of the Chairman and Members of the Boards of Management, appointments or approval of appointments to posts of Financial Adviser and to posts carrying salaries above a certain minimum, approval of capital expenditure programmes and borrowings, appointments of auditors and issue of directives or instructions in certain cases, approval of rules and regulations and general supervision over the affairs of the undertakings.

11. The Study Team has found that while the span of Government control is wider than it need be, the effectiveness of the control is not adequate. Ineffective control is worse than no control because while it inhibits the operational initiative by an external control apparatus, it fails in its objective of regulating matters in those areas where regulation is essentially required. A well-regulated control system should ensure both managerial responsibility and freedom which constitute the hall mark of successful commercial institutions. Control by Government should, therefore, not be diffused and dispersed over all and sundry items of work, but should be confined to basic things and key points.

12. Keeping in view this basic approach to the role of Government *vis-a-vis* public undertakings, we have further to take into account the following factors:

- (i) the accountability of Government to Parliament;
- (ii) the position of Government as the dispenser of public funds;
- (iii) the overall responsibility of Government of ensuring that the public undertakings achieve the objectives underlying their formation and that corrective action is taken in time when the affairs of an undertaking are tending to go wrong; and
- (iv) the necessity of an overall periodic assessment of the performance of the undertakings.

13. So far as the first consideration is concerned, we have suggested that Parliament itself will have to exercise a measure of self-restraint in matters of day-to-day administration. Trust and confidence rather than interference will have to be the guiding principle. As to the second factor, our firm view is that the necessary control should be exercised by a vigilant post-audit of information, returns and reports rather than through powers of prior sanction; in any case the annual budget procedure would also be an effective means of achieving the purpose. As regards Government's responsibility, it would be best discharged through a careful selection of the Chairman and Members of the Board and only in the last resort, by the use of power to issue directives. Further, the proposed Bureau of Public Enterprises and the Audit Boards, to which we refer later, will take care of the last factor.

14. We have taken note of the factors pointed out by the Study Team which, in an indirect manner, result in greater control of public undertakings than is necessary or desirable. The Team has further pointed out that 'the presence of a 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'. We also agree with the Study Team that powers should not be reserved to Government, as at present, in such matters as appointments to posts below the board level. The status accorded to the chairman of a public undertaking determines to a considerable extent the working relationship between the public undertaking and the administrative Ministry concerned. It will be

necessary in some cases to provide emoluments to chairmen of sector corporations which may be higher than those available to senior-most civil servants.

15. One notable aspect of indirect control is that while Government influence the decisions of the public undertaking, they do not share the responsibility for those decisions. The ease with which this form of control can be exercised is apparent from the fact that open directives are rarely issued by Government. We are of the view that instructions or suggestions given to the public undertakings by the Government should be open and should be brought out in the Annual Report of the undertaking.

### **Recommendation 12**

**We recommend that:**

- (1) **No officer of a Ministry should be made Chairman of a public undertaking, nor should the Secretary of a Ministry be included in its board of management:**
- (2) **The top management posts, like those of the chairman or full-time members of the board, should be filled by officers on deputation only when there is no suitable alternative available. As a general rule, Government servants selected for appointment to these posts should, on appointment thereto, opt out permanently for service in the public sector.**
- (3) **The Government officers appointed as part-time members of the board should be fairly senior and not below the rank of a Joint Secretary. These officers should not be taken as representing any particular Ministry so that even when they are transferred, they continue on the boards, the Ministry concerned making the necessary arrangements to keep the officer informed of its views.**
- (4) **The chairmen of the sector corporations should be accorded a status consistent with the requirements and importance of their functions without the limitations as to emoluments as exist at present.**
- (5) **All appointments below the board level should be made by the board itself. However, in the case of the chief executive of a constituent unit and its Financial Adviser, the appointment should be made by the board in consultation with the Government.**
- (6) **The power vested in the managements for sanctioning capital expenditure should be reviewed with a view to making upward revisions in the case of the larger undertakings.**
- (7) **The board should have full freedom in delegating its powers to its executive officers whenever necessary.**

- (8) Any suggestion from Government to a public undertaking asking it to act in a manner different from that dictated by economic considerations should invariably be in the shape of a formal directive and it should be duly brought out in the Annual Report of the undertaking.

#### **Government Machinery for Co-ordination**

16. With the expansion of the public sector, a number of Ministries and agencies of the Government are concerned with work relating to public undertakings. Several Ministries deal with public undertakings in the industrial and manufacturing field alone, viz., the Ministries of Industrial Development and Company Affairs; Steel, Mines and Metals; Petroleum and Chemicals; Communications; Transport and Shipping; and Defence. The organisational set-up of the Ministries themselves is a subject which is being examined by another Study Team constituted by the Commission. Our recommendations on that subject will be contained in our report on the Machinery of the Government of India. Here, we confine ourselves to the arrangements for dealing with the common problems of public undertakings, and will consider only the role, organisation and functions of the Bureau of Public Enterprises and the technical and planning cells in the Ministries looking after the public sector.

#### *The Bureau of Public Enterprises*

17. The Bureau of Public Enterprises was set up in April 1965, to provide a central point of reference and consultation on important aspects of management, explore avenues of economy in capital costs, devise steps to improve productivity and profitability, review periodically the working of public undertakings and to present reports and reviews of their working to Parliament or Government agencies.

18. We find that even after the setting up of the Bureau, there are a number of other agencies which continue to deal with different aspects of work relating to public undertakings. For instance, the Management Division (Committee on Plan Projects) of the Planning Commission is engaged in the study of planning and construction problems of public sector projects, problems of inventory control, information and reporting systems, etc. The Project Coordination Division of the Ministry of Industrial Development and Company Affairs also deals with coordination problems except those which involve policy decisions. The work relating to the Industrial Management Pool is looked after by a cell in the Home Ministry. Instead of effectively coordinating the work relating to the public sector, these various agencies add to the problem of coordination being in need of coordination among themselves. We feel that the existing multiplicity of the present arrangements must be reduced. The present Bureau can be so organised as to become the main if not the sole central agency for this purpose.

19. The Study Team has discussed at length the role and functions that should be assigned to the Bureau of Public Enterprises. We agree with the Team 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'. But in our view the functions proposed by the Study Team for the Bureau are much wider

and more comprehensive than are necessary or desirable. We do not intend the Bureau to be another spoke in the wheel; we envisage its role as one that will keep the machinery in trim and enable its efficiency to be assessed and kept up. We are of the view that the organisation for providing consultancy assistance in such matters as planning and construction of projects and production problems should be within the public sector itself. In fact, with the setting up of the sector corporations suggested by us, the right place for such technical and consultancy organisations would be in their head office organisation. We feel that making the Bureau the central agency for giving advice in patently managerial matters will result in undue, indirect control of public undertakings by an outside agency and will involve unnecessary conflict.

20. We wish to point out that the three principal organisations that we envisage for the regulation of public undertakings other than the concerned Ministries are the Bureau of Public Enterprises, the sector corporations and the audit boards which we describe in a later chapter. We have, therefore, considered the role and functions assigned to each of these organisations with a view to avoiding duplication of effort and securing a purposeful and coordinated functioning. We have already referred to the possible duplication of effort between the Bureau and the sector corporations in the provision of technical and consultancy assistance to public sector projects in certain matters. There is also the possibility of an overlap between the Bureau and the proposed audit boards in respect of work relating to appraisal of performance of public undertakings. We would like to clarify that a systematic critical appraisal of performance of public undertakings is not envisaged for the Bureau which is a body inside the Government. In our view, an objective appraisal can be best undertaken by an agency outside the Government and we have later on suggested this as the function of the audit boards. The Bureau can, however, undertake the appraisal of different aspects of working of public undertakings with a view to defining and suggesting the possibilities of a uniform approach to problems of common interest and solutions therefor.

21. The most important functions of the Bureau should be to act as a data bank and as a clearing house of information both for the Ministries and the public undertakings, to compile and analyse information and to present factual reports on the performance of public undertakings to Parliament and the agencies of Government. The Bureau can also provide technical and expert assistance from a central point to the controlling Ministries in the scrutiny and evaluation of feasibility studies and project reports, identification and study of common problems of public undertakings, building up of adequate finance and accounts organisations and adoption of improved management and cost accounting techniques, achieving of economies in capital costs by laying down norms for buildings and townships and other amenities. The Bureau can also help the administrative Ministries in making appointments to the boards of public undertakings.

22. In order to discharge these functions effectively, the Bureau should be well-staffed with experts in different fields and with persons who have had experience in the working of public undertakings. In the nature of things the Bureau must command attention

and respect for its views. It is not intended to be a super-body and its authority will be derived, not from powers of sanction or superintendence, but from the acceptability and the qualitative content of its advice. It is necessary that it should have at its head a Director-General with the status of a Secretary to the Government of India.

### **Recommendation 13**

**We recommend that:**

- (1) The Bureau of Public Enterprises should be invested with authority appropriate to its responsibilities. It should be headed by a person of the status of a Secretary who should hold a full-time charge of it.
- (2) The person heading the Bureau should be acquainted with the working of public undertakings and should be competent to deal with problems of economic and statistical nature.
- (3) The work at present being looked after by the Project Coordination Division of the Ministry of Industrial Development and Company Affairs and the Management Division (COPP) of the Planning Commission and the work of the Home Ministry relating to the Industrial Management Pool should be transferred to the Bureau of Public Enterprises.
- (4) The functions of the Bureau, in broad terms, should be—
  - (a) to maintain panels of suitable persons with a view to assisting the administrative Ministries in making appointments to the boards of public undertakings and providing consultation for such senior posts under the corporations as may be prescribed;
  - (b) to furnish periodical reports to Parliament and Government on the working of public undertakings;
  - (c) to act as a data bank and as a clearing house of information in respect of important matters of common interest including information about organisational structure and pricing policies in public sector undertakings in other countries of the world;
  - (d) to coordinate the work relating to the examination of public undertakings by Parliamentary Committees;
  - (e) to compile information on the terms and conditions of service of employees and to advise public undertakings with a view to ensuring desirable uniformities in these matters;
  - (f) to maintain liaison with the Department of Administrative Reforms in respect of matters like work-study, operations research and improved reporting systems;

- (g) to assist the concerned Ministries and Finance Ministry in making a more expert scrutiny and evaluation of feasibility studies/DPRs;
- (h) to assist the Ministries in controlling expenditure on residential and administrative buildings, residences of senior executives, townships and ancillary facilities; and
- (i) to advise public undertakings on matters on which advice is sought.

23. As regards the location of the Bureau, we have considered two suggestions made to us: one favours the location of the Bureau in the Ministry of Industrial Development and Company Affairs, and the other, in the Ministry of Finance. We have also noted the views expressed on this subject in the interim report of the Study Team on the Machinery of Government of India, suggesting the location of the Bureau in the Ministry of Industrial Development and Company Affairs. The Study Team on Public Sector Undertakings, after taking into consideration the views of the other Study Team, has recommended that the Bureau should continue to be located in the Ministry of Finance. No doubt, it is true that much of the work of the Bureau would relate to the industrial public undertakings and on that ground it would *prima facie* appear to be more appropriate to locate it in the Ministry of Industrial Development and Company Affairs. We also recognise the need of avoiding a preponderance of a "finance-ridden" outlook in the working of the Bureau. It is, however, to be noted that the Ministry of Industrial Development and Company Affairs, besides being the principal Ministry concerned with industrial development as a whole is itself the administrative Ministry in respect of a large number of industrial public undertakings. It would obviously be inappropriate to locate the Bureau in a Ministry which has administrative control over a large number of undertakings on whose performance it will have to report with independence and objectivity. It should not be difficult to ensure that the working of the Bureau is not unduly influenced by narrow financial considerations when it is headed by one with the status and qualifications we have suggested. The Ministry of Finance being concerned with economic coordination is, in any case, required to examine the investment programmes and financial results of the public undertakings. Thus, placing the Bureau in the Finance Ministry will help reduce duplication in making coordination arrangements in the Government. We agree with the Study Team that the service aspect of the Bureau's functions would be better preserved if it is located in the Finance Ministry. We are on the whole convinced that the balance of advantage lies in retaining the location of the Bureau in the Ministry of Finance.

#### **Recommendation 14**

**We, therefore, recommend that the Bureau of Public Enterprises should continue to be located in the Ministry of Finance.**



### *Organisation in the Administrative Ministry*

24. The size of the internal organisations in the Ministries concerned with public undertakings has to be considered in the light of the role and set-up of the Bureau of Public Enterprises and the sector corporations. The type of talent needed for staffing all these organisations is scarce. It would be prudent, therefore, to avoid setting up of a number of similar units at different places. The concerned Ministries do, however, need small and compact technical and planning cells to undertake scrutiny and evaluation of proposals of capital expenditure coming from the public undertakings and for analysing and screening the various reports and returns which are received from the undertakings. For this purpose, it will be economical if the technical expertise in the Government is organised, as far as possible, at one place, viz., the Bureau of Public Enterprises, from where it can be drawn upon, when needed, by the administrative Ministries concerned. Also, those Ministries can always seek the assistance of the experts available with the sector corporations. In particular, the technical organisation needed for planning of projects should be developed in the corporations without duplicating it in the concerned Ministry.

#### **Recommendation 15**

**We therefore, recommend that a small technical cell should be set up in each Ministry concerned with public undertakings to assist in the scrutiny and evaluation of feasibility studies and detailed project reports and for the analysis and utilisation of progress reports and returns received from public undertakings. These cells need not be on an elaborate scale in view of the proposed strengthening of the Bureau of Public Enterprises and the building up of the technical organisations in the sector corporations.**

25. We have also considered the problem of location of the control over the public undertakings among different administrative Ministries. The general pattern appears to be that an undertaking is placed under the Ministry that is concerned with the development of that sector of industry or with the regulation of that area of activity in which the undertaking is engaged. There are a few exceptions as in the case of the industrial undertakings of the Ministry of Defence. In their case, the location is not based on the functional principle but on the ground that the Defence Ministry is the sole or main consumer of the products of the undertaking. We are in general agreement with the existing policy of locating public undertakings on the functional principle, save in exceptional cases where strong reasons exist for deviating from this principle.

#### **Recommendation 16**

**We, therefore, recommend that the location of public undertakings under the different Ministries should be as indicated in Annexure.**

## Reports and Returns

26. In order to keep track of the progress made in public sector undertakings it is necessary to periodically review performance by calling for reports and returns. An analysis of the number and kinds of reports submitted by various public undertakings to the Government indicates very wide variations in their number as well as frequency. Despite calling for a large number of reports, Government, in many cases, have not been able to utilise them adequately for informing themselves about problems of the undertakings or for assessing their performance. Parliamentary Committees have noted many instances of this during the course of their examination of public undertakings.

27. The following defects have been pointed out by the Study Team with regard to reporting:

- (i) A rational system of reporting is yet to be designed for providing the Government with timely information about the true picture of the functioning of the public enterprises.
- (ii) In many cases, the number of reports and returns being obtained from the public enterprises is unduly large.
- (iii) The form and content of the reports need to be modified in order to cut out non-essential information and to concentrate on items which are important, for the exercise of control at key points.
- (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.

We agree with the Study Team that 'if it is ensured that required information, properly analysed, is available to the management, the Government will need very little information extra to that which is compiled and put to the management board of the public enterprise'.

### Recommendation 17

**We recommend that :**

- (1) **An expert Study Group, under the Bureau of Public Enterprises should be set up to make a detailed examination of reporting by the public undertakings to the Government. This group can enlist the help of officers concerned in the Ministries and public undertakings as well as of the external consultants in the field. The information requirements of the controlling Ministries and other Government agencies should be reviewed to avoid overlapping and to enable standardised returns to be developed.**

- (2) The forms devised for the submission of information by the public undertakings to the Government should, as far as possible, be identical with the forms adopted for submitting similar information to the management board.
- (3) The administrative Ministry should periodically review the extent of utilisation of the reports and returns obtained from public undertakings in order to cut out non-essential items of information and to strengthen their own organisation, if necessary, for carrying out the processing and analysis of information received through the reports, and for taking follow-up action on them.



## CHAPTER V

### PLANNING AND CONSTRUCTION OF PROJECTS

#### Planning of Projects

The public sector in India has expanded in recent years at a rapid pace in pursuance of the Government's policy to accelerate industrial development in a planned manner. Most of the public sector projects in the industrial and manufacturing field have been set up in the face of heavy odds. Not only were the infrastructure facilities lacking; there was also acute shortage of trained manpower and technical know-how. There was a marked dependence, therefore, on foreign consultants and collaborators right from the stage of planning and project formulation. It was, more or less, inevitable, that defects and deficiencies should have occurred in the planning of these projects resulting at times in avoidable capital expenditure and delays in construction. The initial planning and staffing was in hands not well-versed in launching commercial ventures. In the improvised administrative arrangements, the commercial element came, not from experience or business acumen, but from theoretical knowledge and thinking, often borrowed and adapted. It is not surprising, therefore, that the Committee on Public Undertakings, in their 13th Report observed 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 project'.

2. The ambit of the public sector in India under the present policies and the accepted social objectives is bound to be ever-widening. The draft outline of the Fourth Plan envisages a further investment of Rs. 3,500 crores on industrial projects and mining schemes in the Central public sector. The need for improved planning of projects, adoption of modern techniques of planning, development of indigenous consultancy services and adequate staff organisations to achieve greater self-reliance is, in this context, self-evident.

3. The Report of the Study Team gives a number of concrete examples based on its own study and draws attention to information contained in the reports of the Parliamentary Committees and the studies conducted by the Committee on Plan Projects of the Planning Commission. These indicate how in the case of a number of projects inadequate attention at the planning stage led to the prolongation of the period of construction, delays in the attainment of production targets and much higher investment than was originally envisaged. The main defects pointed out in this connection by the Study Team are as follows :

- (i) the omission to take certain steps during the project formulation stage resulting in the execution of projects on the basis of incompletely conceived plans and estimates; and

- (ii) the assumptions made during initial planning often not being verified or supported by a thorough analysis of the relevant factors, the more significant deficiencies being:
  - (a) lack of detailed analysis on the scope and pattern of product mix,
  - (b) inadequate soil investigation required for the selection of site,
  - (c) lack of proper assessment of the demand for the product, and
  - (d) incomplete analyses of commercial profitability as well as national economic benefit.

4. The Study Team has by way of suggestions for the improvement of the planning process recommended adoption, as a guide, of the Memorandum on 'Feasibility Studies for Public Sector Projects' which has been prepared by the Planning Commission in cooperation with the Ministries concerned. We are in agreement with this proposal and appreciate the emphasis placed by the Study Team on the importance of making a proper demand survey and analysis before going in for sizeable investment in a project. While the general approach in the Memorandum is sound, we hope that project planners will be careful to adapt the general suggestions to the practical needs of each project.

#### **Recommendation 18**

**We recommend that :**

- (1) Planning Commission's Memorandum on 'Feasibility Studies for Public Sector Projects' should be adopted as a guide for the steps to be taken including the preparation of documents, before sanctioning a project.**
- (2) For every project involving investment above, say, Rs. 5 crores, a feasibility study should be made along the lines set out in the Memorandum.**
- (3) Before going in for additional capacity in the public sector, the agency concerned should assess the demand for the product after taking all relevant factors into consideration.**
- (4) A project should not be included in the Plan unless the feasibility study has been completed and it has been found to be satisfactory on scrutiny. However, when such a study is not complete the project may be mentioned only as a notional target without mentioning locations.**

5. The Planning Commission's Memorandum suggests that in cases where foreign collaboration is not required, the approval to initiate preliminary work on the project may be based on the feasibility report without waiting for a detailed project report. The suggestion if adopted will naturally reduce delays. After approval has been

accorded for launching the project, only the supplementary project estimates, as suggested in the Memorandum, need be prepared for the purposes of obtaining sanction for the final release of funds. However, in cases where foreign collaboration is necessary, it would be prudent to get a fuller project report from the foreign consultants and have it approved only after a further report on feasibility from the standpoint of national economic benefit has been prepared by the Government or the public undertakings.

### **Recommendation 19**

**We recommend that :**

- (1) For projects not requiring foreign collaboration, Government approval to go ahead with the initial work on the project may be given on the basis of the feasibility report and final sanction for the release of funds should be given after supplementary project estimates taking the necessary changes into account have been prepared.**
- (2) For projects that require the detailed project report to be prepared by a foreign technical collaborator, the Government or the public undertaking should prepare a feasibility study from the standpoint of national economic benefit and the approval of the project should be based on this report.**

6. After the formulation of the project report, its scrutiny and evaluation has to be made in accordance with proper criteria and without undue loss of time. In principle, the criterion for evaluating a project should be its national economic benefit. It would, of course, be essential to ensure that the evaluation is not vitiated by any ambiguity in determining national economic benefit or by insufficiency of data. All considerations affecting the importance and urgency of the project and the public interest involved should be brought out adequately and objectively.

### **Recommendation 20**

**We recommend that :**

- (1) Government and the Planning Commission should evolve and lay down standard guide-lines clearly for ascertaining the national economic profitability.**
- (2) Immediately on the receipt of the feasibility study/DPR, a piloting committee should be set up consisting of the representatives of all the Ministries and agencies concerned and this committee should undertake a concurrent and collective examination of the feasibility study/DPR so that delays due to successive examination by different agencies may be avoided.**

7. Whilst Indian consultancy services have been improving both in the public and private sectors, our dependence on foreign consultants continues to be marked. It is no doubt true that the larger undertakings like the Hindustan Steel, the Fertilizer Corporation of India and a few others have already developed designing and engineering organisations which can prepare project reports without foreign help. In a few cases, public undertakings have also executed projects which have been planned and designed by themselves. However, on the whole, much headway in this direction is yet to be made. Without a proper and well-established base of designing, engineering and other technological services, our dependence on foreign consultants cannot be reduced. We agree with the Study Team that the public undertakings should be assisted and encouraged to build up designing and consultancy cells in their head offices so that this common service may be economically provided from a central point to a large number of operating units. Moreover, the sector corporations should have the assurance that the work of setting up new projects will be entrusted to them. They would then be able to set up and maintain designing and consultancy organisations as an economic proposition. Turnkey contracts should be avoided as far as possible. There might be occasions, however, when such contracts become unavoidable for acquiring the latest technical know-how. In such an event, all necessary steps have to be taken to ensure that Indian engineers acquire the necessary experience and technical know-how from the foreign technicians.

### **Recommendation 21**

**We recommend that :**

- (1) Public undertakings should be encouraged and assisted to set up adequate designing and consultancy organisations.**
- (2) The work of project planning and formulation should be handed over to the sector corporations.**
- (3) Turnkey contracts with foreign collaborators should ordinarily be avoided. In the special case when it is decided to award such a contract, care should be taken to see that complete drawings and designs are supplied by the foreign contractors, and that Indian engineers and technicians are given full and adequate training and associated with the construction work.**

### **Construction**

8. Of the outlay on a project set up in the industrial and manufacturing field, a major portion is spent on construction of factory buildings, townships and other civil works. The importance of proper construction planning and construction management for reducing capital costs on the project is, therefore, obvious. The report of the Study Team gives details of the cost overruns and delays in construction of certain public sector projects. The main deficiencies pointed

out are as under:

- (i) Planning for construction has not been sufficiently detailed and comprehensive. In many cases a master plan including all the major elements of work was not developed and this diluted the effectiveness of management control.
- (ii) 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.
- (iii) Few project managers have had necessary expert assistance with the result that new scientific techniques have not been adequately used in construction planning.
- (iv) In many instances, items having a critical bearing on the completion of the project, e.g. earmarking of necessary foreign exchange and ordering of equipment and materials having long delivery lead-time, were not adequately taken care of in advance.

## Recommendation 22

**We recommend that :**

- (1) Once a project has been approved, systematic and thorough planning of the construction programme should be undertaken before starting actual construction.**
- (2) For all projects involving sizeable investment, say, of Rs. 5 crores and above, a complete master plan of construction should be drawn up with the help of network techniques like the PERT and CPM (Programme Evaluation and Review Technique and Critical Path Method).**

9. The bulk of construction work is carried out under contract. Deficiencies in the preparation and award of contracts and the management of work performed by different contractors have a vital bearing on the quality and timely completion of construction work. The Study Team has cited cases to highlight the major defects in the preparation and award of contracts. These mainly are as follows :

- (i) The obligations of different parties to the contract have been often inadequately defined.
- (ii) Contract documents do not generally include realistic contract milestones of key events based on a master plan and schedule of construction.
- (iii) In several cases, penalty clauses have been found to be ineffective and clauses providing for incentive payments have either not been incorporated or have not been confined to the elements critical to the completion date of the project.
- (iv) Delays have often taken place at various stages before the completion of the contract documents, viz., in the preparation and scrutiny of tenders, selection of contractors and signing of the contracts;



- (v) Adequate and reliable information regarding the performance capabilities of various contractors has been generally lacking.

10. We have considered the various suggestions made by the Study Team to overcome the above deficiencies. We agree with the view that the 'completion of a project on time within cost estimates depends largely on proper planning and coordination of each and every contract in the project', and the 'control and coordination that the project management can effect are directly related to the conditions incorporated in the contract documents'.

### **Recommendation 23**

**We recommend that :**

- (1) The construction effort under each contract should be scheduled and coordinated within the framework of a master plan.**
- (2) For various types of 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.**
- (3) Contracts should provide for incentives as well as penalties. 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 to enable management to ensure adherence to the time schedule. Incentive payments for the completion of a project on a date earlier than that specified in the agreement should be provided for whenever such earlier completion of the contract would facilitate the earlier completion of project as a whole.**
- (4) Performance data should be collected about contractors doing work on public sector projects so that sufficient documentation may be available to the management for supporting their decision to reject the lowest tender in case the contractor making it is adjudged unsuitable.**

11. Throughout the period of construction, management have to keep constant vigil to monitor the progress of construction and control costs. The use of efficient reporting systems is essential for this purpose. The Study Team has pointed out that the present reporting system can be much improved upon by the adoption of modern network techniques and by the use of such reports as not only give expenditure data but also relate financial expenditure to physical progress. These reports should also contain accurate forecasts of the final project costs and the future cash requirements.

#### **Recommendation 24**

**We recommend that the net-work techniques should be adopted for monitoring the progress of construction.**

12. The major components of the expenditure incurred during the construction phase of a project are the wage and salary bill of the construction engineering personnel and the cost of construction equipment. While recruiting construction personnel and in purchasing equipment the possibility of over-pitching demands in an attempt to follow too optimistic a schedule of construction should be avoided. After the construction of a project is completed, difficulty is experienced in shedding surplus construction staff and in utilising the heavy items of expensive construction equipment, which though still serviceable, cannot be utilised on the project. The Heavy Engineering Corporation and the Neyveli Lignite Corporation are examples of undertakings which have experienced this difficulty. These difficulties are experienced in even greater degree by the smaller undertakings. We feel that with the setting up of sector corporations, these problems will become less acute since a corporation will be able to achieve continued utilisation of the construction personnel and equipment on its projects in a phased, coordinated and efficient manner.

#### **Recommendation 25**

**We recommend that till such time as the corporations are set up, the Bureau should compile information about the surpluses, or likely surpluses, of construction personnel and equipment and disseminate this information among the public undertakings with a view to securing their more efficient utilisation.**

13. Considerable experience and knowledge are gained during the construction phase of a project which, if properly compiled and utilised, can lead to better execution of similar projects in future. If deviations from original estimates appear to be substantial, an investigation into the causes may yield useful lessons for the future. In this connection, it should be noted that estimates are often deliberately pegged at low levels in order to make the project look more profitable than it actually is. We would strongly suggest that those who are in charge of a major project should compile its history so as to bring out the technique adopted, the nature of the difficulties experienced, remedial measures taken, changes necessitated due to lapse of time and the changes in labour and other conditions. These case histories should be circulated to all the agencies concerned with planning and construction so that past mistakes could be avoided and profitable use could be made of measures that proved successful.

#### **Recommendation 26**

**We recommend that :**

- (1) Detailed information should be compiled about deviations from earlier estimates and this information should be communicated to the agencies connected with the technical scrutiny of feasibility studies of similar projects.**

- (2) A project completion report should be drawn up for each project containing such information as may be found useful during the construction of similar projects in the future.
- (3) Work on the project completion report should preferably be undertaken from the start so that all useful data at every stage of construction is sifted, analysed and reported while events are still fresh in memory.
- (4) Case histories based on the project completion report, bringing out the problems encountered and measures adopted to overcome them, should be prepared and circulated to all the agencies who are likely to find them useful.



## CHAPTER VI

### RESOURCES—EXTERNAL AND INTERNAL

Except in the few cases where there is some private participation in capital, the entire funds for building up the fixed assets of a public enterprise are provided by the Government. Of the Rs. 2,415 crores invested in the industrial and commercial undertakings of the Central Government as at the end of 1965-66, Rs. 2,304 crores were provided by the Central Government. The policy followed by Government is that each project should 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. As regards release of funds for capital expenditure, the Government provides them on an annual basis within the sanctioned budget. The present position 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. Such a measure has been adopted with a view to avoiding needless strain on the ways and means position of the Government as a whole. The Study Team has found that public undertakings are experiencing difficulty under the present arrangements in securing funds needed for capital expenditure. We feel that such strict pre-scrutiny is not conducive to efficiency and has in some cases resulted in holding up work on projects under construction.

#### Recommendation 27

**We recommend that:**

- (1) A uniform loan-equity ratio need not be adopted for all public enterprises irrespective of their size, productive function and borrowing capacity.**
- (2) The administrative 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 proposals asking for the release of already budgeted amounts. It should be possible for the Government to exercise post-withdrawal scrutiny of the manner in which the funds have been released to and utilised by the public undertakings.**

2. The public enterprises are expected to meet their requirement of working capital through cash credit arrangements with the State Bank of India or its subsidiaries, or by utilising temporarily their internal resources. While the present policy of the Government that public undertakings should meet their working capital requirements by obtaining funds from Banks without the support of a Government guarantee is sound, the fact remains that many projects, particularly in the initial stages, experience great difficulty in doing so. Commenting on such a difficulty felt by the Bharat Heavy Electricals, the Committee on Public Undertakings (39th Report—

March 1967) observed that 'they see no 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'. A certain degree of inconvenience is also caused by the present restriction that public enterprises should ordinarily bank with the State Bank of India or its subsidiaries.

### **Recommendation 28**

**We recommend that:**

- (1) Government should be willing to provide the necessary guarantee if a public enterprise is unable to secure funds otherwise.**
- (2) Public enterprises should be free to have cash credit arrangements with any scheduled bank that has deposits above a certain limit. Government should be kept informed of such arrangements.**

3. While Government companies are not obliged to submit their revenue budgets to the Government or Parliament, the statutory corporations like the Oil and Natural Gas Commission and the air corporations have to do so, as required by the statutes creating them. While we attach great importance to effective Parliamentary supervision, we agree with the Study Team that it will not, by commercial standards, be a sound policy to make public the revenue budget estimates of State enterprises. Such a step, as the Study Team has emphasised "is likely at times to place the enterprise in a disadvantageous position vis-a-vis its counterparts abroad or in the private sector". We also agree with the Team that working to a revenue budget, approved by a higher authority can "prove to be a very severe constraint on an undertaking that is expected to run on business and commercial lines".

### **Recommendation 29**

**We recommend that a public undertaking whether a Government company or a statutory corporation, should not be required to submit its revenue budget to Government or Parliament for prior approval except in cases where the Government is expected to make up the deficit, if any, in the budget.**

4. It is now universally recognised that the public undertakings should generate surpluses and augment the revenues of the State and provide resources for further development. In the Third Plan an amount of Rs. 300 crores was indicated as the surplus expected from the Central Government undertakings other than the railways. We find that the estimates were not supported by any analysis of the surplus expected from individual undertakings. The amount was fixed *ad hoc* without even consulting the public undertakings. The

Committee on Public Undertakings made the following observation in their 11th Report (May 1965) 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.....The Committee trust that while making provisions 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'.

5. Government derive returns from their capital investment in the form of interest on long-term loans and dividends as may be declared on the share capital. Although the dividend on equity capital naturally depends on the profits of the public enterprises, the budget of the Central Government does contain estimates of the returns expected from the running concerns. On an analysis of the budget of recent years the Study Team has found that the anticipated accruals to Government were determined more or less *ad hoc* with the anticipations going off the mark in many cases. Moreover, no guide-lines have been prescribed for determining the division of profits (after depreciation) into retained profits and the dividends to be paid to the Government.

6. The situation calls for a general statement of Government policy on the objectives and financial obligations of public enterprises. We find that such a statement was issued by the Government in the United Kingdom in respect of their nationalized industries. We have considered this statement and find that something along these lines may be done in India.

### **Recommendation 30.**

**We recommend that Government should make a comprehensive and clear statement on the objectives and obligations of public undertakings. This statement should lay down the broad principles for determining the precise financial and economic obligations of the enterprises in matters such as 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. These governing principles should be formulated in consultation with the public enterprises. There should also be regular consultation between the Government and public enterprises to review the extent to which they can expect additional finance from Government for their capital requirements and the amount of surpluses that are expected from the undertakings.**

7. The return on the capital invested in the public undertakings, as we have already observed, is generally on the low side. There is no denying the fact that there is scope for reducing costs—capital as well as revenue. We have made suggestions in this regard in other chapters of this report. Here, we would like to refer particularly to the expenditure on townships and ancillary facilities which has often

led to increased, but avoidable capital costs. The outlay on townships constitutes over one-tenth of the total investment on the projects. For the Central Government undertakings alone, the total capital outlay on townships is reported to be of the order of Rs. 300 crores. The Committee on Public Undertakings which examined this question in detail in their 8th Report (May 1965) observed that 'evidently the accommodation provided in some cases is on a scale larger than necessary'. The Committee in the same report also commented on the wide disparities in the scales of accommodation adopted in various public undertakings and made the following observations:

"The Committee regret to observe that the public undertakings have followed very liberal scales of accommodation, particularly for the higher categories of their employees... In the absence of any direction from the beginning to adhere to at least Government scales, the public undertakings appear to have fixed their own standards of accommodation. What is more surprising is that the scales of accommodation prescribed by the Ministry of Finance in 1960 are also not being followed by all the public undertakings.... The Committee hope that the newly set up Bureau of Public Enterprises would look into such matters and ensure that all instructions issued by Government are complied with by the public undertakings".

8. Many public undertakings have indeed been lavish in providing residential and office accommodation. We are of the view that the senior executives in the public sector should not attempt to emulate the standards prevailing in some private concerns and that in these matters there should be comparability between the facilities made available for officers serving at corresponding levels in the Government and in the public undertakings. We see no reason why the residences and offices of the top executives in the public sector should be on a more liberal scale than those of the senior-most officers of the Government.

9. The Committee on Public Undertakings has also referred to the extravagance of, and wide variations in the expenditure incurred on ancillary facilities such as education and hospitals in different public undertakings. The Study Team has pointed out that the provision of these facilities as well as those of accommodation and transport results in a sizeable subsidy to the employees of the undertakings. The Study Team has also stated that the quantum of subsidy per employee per month varies from Rs. 25 to as much as Rs. 80 in different undertakings. Some economy can obviously be achieved by applying more or less uniform standards and observing business prudence in providing these facilities. We trust, however, that while such economy is necessary and desirable the responsibility of the authorities for providing the basic amenities in respect of housing, education and health which are among the primary needs of man will be fully kept in view.

### **Recommendation 31**

**We recommend that the Bureau of Public Enterprises should be asked to work out standard scales in such matters**

as housing accommodation, hospitals and education facilities and other amenities provided to the employees. These standards should be worked out in consultation with the public undertakings and the Ministries concerned, note being taken of the varying conditions in different projects. The Ministry of Finance should ensure that the scales prescribed are actually complied with.

10. Despite the measures taken to achieve economies, outlay on townships will continue to be an item of heavy capital expenditure in most projects, particularly those which are situated in out of the way places. The Study Team has pointed out that very few public undertakings have been able to derive any benefit from the Subsidised Housing Scheme under which financial assistance is provided through the State Governments for the construction of houses for industrial workers drawing salaries below a certain level. Under the scheme, the expenditure incurred by the employers on housing workers drawing salaries below a certain level can be met to the extent of 75%—25% as outright subsidy and 50% as loan. The Study Team has referred to the observations of the Committee on Public Undertakings, made in their 8th report (May 1965), that of the total amount of Rs. 45.79 crores disbursed under the Scheme up to the end of 1962-63, only Rs. 82.6 lakhs related to the assistance extended to the public undertakings.

11. We agree with the Study Team that it should not be necessary for the Central Government to route funds through the State Governments for subsidising housing schemes for the industrial workers of Central Government projects. We also agree with the view of the Study Team that 'the very introduction of the scheme shows that Government agree, in principle, to subsidise up to 25% of the cost of houses for industrial workers drawing salaries below a certain level'.

सत्यमेव जयते

### **Recommendation 32**

**We therefore recommend that in view of the fact that capital for construction of township is, in any case, provided by the Central Government, the provision of the subsidy, as may be admissible under the Subsidised Housing Scheme, should be made at the very start.**

12. Resources generated by the undertakings themselves are expected to play a significant part in meeting the needs for expansion. A programme of maximisation of internal resources should include the largest possible achievement of economies in cost of production and the adoption of a sound pricing policy. We have elsewhere dealt with economies in cost of production and will now proceed to consider the pricing policy.

13. The pricing policy of a public enterprise has to be based on its productive function, and the market situation. The principal objectives that a system of price determination can be made to serve include: the promotion of a rational allocation of scarce resources; the optimum utilisation of inputs, and the acceleration of the growth



of the economy. Determining prices under conditions of competition is not difficult because the prices which the market can bear are a ready indication that the price policy is consistent with the three objectives mentioned above. The problem is, however, more complicated in respect of undertakings operating under conditions of monopoly or of restricted competition.

14. Public enterprises enjoy varying degrees of autonomy in regard to price fixation. In certain cases, like fertilisers, drugs and petroleum products, the prices are controlled or regulated by the Government. The fares charged by the Indian Airlines Corporation and the Mogul Line require Government approval. The other undertakings generally are free to price their products or services and the usual practice so far has been to arrive at prices on cost plus basis or on the landed cost formula, subject to the overall constraints of the market situation. We agree with the Study Team that the absence of a clear indication to public enterprises about the return expected from them introduces an element of arbitrariness in their price policy which is normally based on the desire to cover costs and make a surplus. We also agree with the Study Team that 'self-financing for expansion should be taken as a specific obligation of our public enterprises operating in the industrial and manufacturing field'. Nevertheless, after making due allowance for all these factors and for any fiscal policies that Government may lay down in respect of various undertakings or their products, it is the duty of Government to ensure that in the interests of the consumer, price increases are not conceded without examining avenues of economy in all possible directions.

### **Recommendation 33**

**We recommend that in formulating the pricing policies of public enterprises, the following principles should be kept in view:**

- (1) Public enterprises in the industrial and manufacturing field should aim at earning surpluses to make a substantial contribution to capital development out of their earnings besides making a contribution to the Exchequer.
- (2) Public enterprises should in any event pay their way and should not run into losses except in pursuance of express directives issued by Government in public interest.
- (3) In the case of public utilities and services, greater stress should be laid on output than on return on investment, the former being extended up to a level at which marginal cost is equal to price.
- (4) 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.

15. Public enterprises generally engage in the production of goods and services which are basic to the life of the community or have a critical bearing on industrial development as a whole. Certain public undertakings enjoy a degree of monopolistic power. If the prices are kept too low, it results in a less careful and less economic utilisation of the products of the undertaking and if no regulation is exercised in this respect, the monopolistic public enterprises can show profits in spite of inefficient operations at the expense, so to say, of the consumers. Government's responsibility in the matter of pricing of the products of such public undertakings is therefore obvious.

16. The financial results that any enterprise can show depend upon the level of costs and the level of prices. The Study Team has discussed the implications of regulation of prices and the method that should be adopted for working out fair prices in respect of those public undertakings which are operating under monopoly conditions. We agree with the Team that public undertakings should be entitled to have their financial obligations revised in case their prices are controlled and kept lower than what is commercially justified, under deliberate public policy. We also agree with their view that in case of public enterprises operating under monopoly conditions, the c.i.f. value of similar products should be taken as the guiding factor in working out fair prices.

#### **Recommendation 34**

**We recommend that:**

- (1) If in the public interest, Government require an undertaking to keep prices at an artificially low level, the financial obligations of that undertaking should be revised.
- (2) Wherever public undertakings are operating under non-competitive conditions or where the number of buyers of the product 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. In cases where the imported goods have the benefit of export subsidies in the countries of origin, the c.i.f. prices should be proportionately weighted.
- (3) As the ability to produce goods at costs matching the c.i.f. price of similar goods will differ from undertaking to undertaking, a detailed examination of the cost structure of the products of such undertakings should be made to determine the levels of permissible deviations. For this purpose, Government can utilise the machinery of Tariff Commission or the Cost Accounts Organisation of the Ministry of Finance.

17. In the regulation of prices, one of the factors that have to be considered is the relation between a public undertaking and the consumer of its products or services. Whenever the character of a public

sector industry is monopolistic the need for safeguarding the interests of the consumer is all the greater. It may be argued that Government and the public undertaking are sufficiently aware of consumers' interest to provide the necessary safeguards. Such an assumption may not always be correct as Government departments are prone to be more favourable to the problems of public undertakings than to the interests of the consumers. Only in some cases where the Ministry is concerned with the consumer interest and does not directly deal with the public sector industry would this assumption be valid in practice.

18. We feel that something more requires to be done than leaving the protection of the consumer to be taken care of by the normal governmental channels. An arrangement frequently adopted to safeguard consumers' needs is to include representatives of consumers' interests in the board of management of the public undertaking. We do not favour such an arrangement as it would affect the compact character of the boards. We further consider that an independent machinery would better serve the purpose. There is an elaborate consultative machinery in the railways where Railway Users' Committees function at various levels. In some of the statutory corporations also, provision has been made for such machinery. For example, the Air Corporations Act, 1953 provides for the constitution of an Air Transport Council. No such machinery has, however, been set up in the case of public undertakings functioning as Government companies. When setting up sector corporations under Acts of Parliament, as recommended by us, provision should be made for the constitution of consumers' consultative councils. These councils should keep a watch over consumers' interest, and advise the Government and the public undertaking on such matters as may be referred to them. These councils can include representatives of the public undertaking concerned, the controlling Ministry and the Ministry having an interest in the products of the undertaking. If there are well established organisations of the consumers or if a Government department or another public undertaking is a consumer, the representatives of these agencies may also be included. It would be of great value if the Parliament elects two of its members to serve as members of each of these councils.

### **Recommendation 35**

**We recommend that:**

- (1) **Consumers' Consultative Councils should be set up in each sector of public enterprise. These councils should consist of the representatives of organised bodies of consumers concerned with the products of the undertaking, the controlling Ministry, the sector corporation concerned, and other interested Government departments and public undertakings.**
- (2) **Parliament may elect two members to serve on each of these Councils.**
- (3) **The Councils should deal with matters involving the interest of the consumers and further advise Government or sector Corporations on such matters as may be referred to them by the latter.**

19. Disputes on prices sometimes arise when the purchaser is also a public enterprise or a Government department. The illustration provided by the dispute between the National Mineral Development Corporation and the Minerals and Metals Trading Corporation which has been pending for over two and a half years is, in this connection, quite significant. The question of disputes between undertakings has to be tackled satisfactorily. Such disputes may frequently arise with increasing production in the heavy electrical plants and the heavy engineering and mining machinery projects. In this context, the setting up of a Central Price Commission is often suggested. We, however, agree with the view of the Study Team that 'it will not be advisable.....to set up a statutory body for settling disputes because of the lengthy procedures and the delay that the procedures of such a body will entail'. Normally a dispute of this nature should be capable of being resolved by consultation between the Ministries concerned if the undertakings are under the same Government. However, where the undertakings involved in a dispute are under the control of different Governments, as the Study Team states, 'it might not always be possible to settle disputes without decisions from a statutory body'.

#### **Recommendation 36**

**We therefore recommend that:**

- (1) High-powered standing committees consisting of the representatives of the public undertakings and the Ministries concerned should be constituted for deciding matters under dispute between Central public undertakings. The Chief Economic Adviser or his nominee should be included in these committees so that he might be able to provide expert advice to them.**
- (2) In case the dispute over prices is between undertakings under the control of different Governments, the decision will have to come from a statutory body. In such cases, the agency and expertise of the Tariff Commission can be utilised or a special tribunal set up, with the statutory authority necessary to ensure that its decisions are binding on the disputants.**

## CHAPTER VII

### FINANCIAL AND MATERIALS MANAGEMENT

#### Financial Management

If the public undertakings are to function on business and commercial principles, it is imperative that their administrative and financial procedures are consistent with this requirement. However, these undertakings have largely copied the bureaucratic procedures obtaining in the Government Departments. We further notice that a majority of public undertakings have yet to set up adequate finance and accounts organisations and adopt improved techniques of financial management. The auditors have repeatedly pointed out the inadequacy of financial control and internal audit systems in the public undertakings.

2. An effective mechanism of financial management and control can be built up only on a sound budgetary system. The budget of a public enterprise has not only to serve the requirements of external accountability and internal control but it has also to provide a plan of action, a framework in which to review progress and a standard against which to review performance. Such a method of budgeting, usually referred to as performance budgeting or business-type budgeting, is yet to be introduced in our public undertakings. We find that except for a few of the larger undertakings, most of the public enterprises are still following the traditional pattern of budgeting.

#### Recommendation 37

We recommend that:

- (1) Budget should be viewed as embodying a programme of action which enables those who are responsible for the use of resources to project their ideas into the future, and concurrently to look back and review actual performance and progress as compared with promise and intentions. It should not be looked upon merely as a device for obtaining funds and as an instrument of control over those who are authorised to spend.
- (2) Public undertakings should prepare comprehensive budgets to embrace the entire organisation and to cover *inter alia* the following range of budgeting activities :
  - (a) Production Estimates
  - (b) Sales Estimates
  - (c) Cost of Production Budget with its necessary subdivisions, e.g.—
    - Materials Purchase Estimates
    - Labour and Personnel Estimates
    - Overheads Estimates
    - Plant Maintenance Estimates, etc.

- (d) Manpower Budget
- (e) Township and Welfare Estimates
- (f) Research and Development Estimates
- (g) Capital Expenditure Budget
- (h) Profit and Loss Estimates
- (i) Cash Flow Estimates
- (j) "Capital Employed" Budget—Fixed and Working Capital.

3. The budgets prepared by the public undertakings may be divided into revenue budgets, capital expenditure budgets and cash budgets. The Study Team's examination in this field reveals that in most public undertakings these budgets are being used more to meet the immediate and more compelling requirements and less as a management aid for planning activities, laying down the expected standards of performance and reviewing actual performance with what had been anticipated. The preparation of the revenue budget should be viewed as a two-fold process in which estimates made by different units are submitted upwards and provisions decided upon at higher levels are transmitted downwards. This is also, more or less, true of the formulation of the capital expenditure budget of the enterprises. If budgeting is broken up unitwise and done in sufficient detail, it can provide the authorities at various levels with an accurate idea of not only the amounts that they have been authorised to spend but also the goals that they have to achieve. Periodical review of performance as compared to budget estimates can then provide timely information about deviations and deficiencies so that corrective action can be applied by the management in due time.

### Recommendation 38

**We recommend that:**

- (1) The preparation of the revenue budget should be taken as an opportunity to make a comprehensive and forward-looking review of plans and standards. 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.
- (2) The comparison of performance data with budget estimates should be undertaken periodically during the currency of the budget itself. Expenditure budgets in general may be reviewed at least twice a year to enable the management to obtain some mid-year knowledge of how expenditure is faring so that they may take corrective steps, where necessary, before the year has ended.

- (3) Monthly reviews should be undertaken of sales, production, consumption and yield figures at each plant and unit. Profit and loss accounts and balance sheets as well as cost statements should be prepared every month.
- (4) 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 organisation of the undertaking can provide.

4. The capacity of a public enterprise to plan ahead depends upon knowing in advance how much funds will be made available to it. As a substantial portion of the capital expenditure comes from the Government, it is not possible for a public undertaking to make a good enough forecast without at least a provisional indication of the level of funds that will be forthcoming from the Government. Even though the Plan gives an indication of the funds likely to be available over a period of five years, it does not afford a five-year perspective in the latter years of the Plan. The public corporations in the United Kingdom which also face this problem find their task rendered much easier because the British Government approve each year the general lines for a corporation's plans for development and capital expenditure for the next five years and are also willing to agree to long-term commitments where possible and appropriate.

### **Recommendation 39**

**We recommend that:**

- (1) Every public undertaking 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.
- (2) To enable public enterprises to undertake long-term capital planning on a realistic basis, Government should each year discuss with the enterprises and approve its plans for development and capital expenditure for the next five years, agreeing to appropriate long-term commitments as well.
- (3) Proper controls may be prescribed to keep public sector investment generally within the Government's resources. For instance, Government may each year fix an upper limit on the expenditure to be incurred on capital account by the enterprises during a shorter period ahead, say, 2 years.

5. As for the cash budget, it is said it occupies a less important position in the public undertakings as they are financed by the Government and do not work under that limitation which availability of cash imposes on a private enterprise. The Study Team has reported that the cash budget in a public undertaking 'is more a reflection than determinant of the revenue and capital expenditure budgets'.

#### **Recommendation 40**

**We recommend that the cash budget and the periodical budget-performance comparison statements and cash flow statements should be treated as an integral part of the budgetary process.**

6. The merit of an effective system of internal budgetary control does not lie only in its providing for better supervision and control of expenditure but also in facilitating greater delegation of authority in financial matters. If greater emphasis is placed on periodical reviews of actual performance as compared to budget estimates and if the deviations and deficiencies so noticed are promptly investigated to determine causes and to explore possibilities of remedial action, then the powers delegated to authorities at various levels can be considerably enhanced without diluting the effectiveness of control or the quality of supervision. With the adoption of these techniques, generally referred to as 'reporting by exception' or 'control by exception', the speed of operations in the public undertakings can be very much increased. It is necessary that not only the officers of the finance organisation but also those who are entrusted with the use of resources know the prescribed procedures for budgeting and for undertaking budgetary reviews. In this context, a comprehensive budget manual needs to be prepared in all public undertakings.

#### **Recommendation 41**

**We recommend that:**

- (1) **Improvement in budgetary and financial control should be accompanied by a greater delegation of authority as well as reduction in the number of cases requiring prior financial concurrence. The need for prior financial concurrence can be further reduced or eliminated by increasing the financial powers of managers, purchase officers etc. and providing for inter-branch standing committees for such purposes as review of tenders, purchase of equipment and stores.**
- (2) **Each public enterprise should be asked to compile a comprehensive budget manual to cover the various forms for compiling information for the budget, the time schedule for its preparation, the responsibility/cost centres and the financial powers related to budgetary levels at each responsibility centre, budget committees and the procedures for carrying out periodical budgetary reviews.**

7. In a large industrial or commercial enterprise, the scope of control and supervision that can be exercised by the supervising officer is limited. It is expedient to set up a full-fledged internal organisation in such undertakings, to be continuously engaged in inspection and internal appraisal of performance. The Study Team went



into this question in some detail and pointed out that 'there is a good deal of misunderstanding in various quarters about the nature, scope and performance of internal audit in relation to public enterprises'. We also feel that internal audit in relation to public undertakings should not be viewed as an additional check exercised in advance of external audit or as a pre-audit of financial transactions. The aspect of internal audit as being a service provided to the management organisation should be strongly emphasised so that it does not get involved in management or operational decisions impeding the flow of work. Internal audit can also play a role in the verification of transactions to check on proper authorisations and in the protection of the property of the undertaking against fraud, waste and pilferage. The existence of an efficient internal audit system can also help reduce the scope and intensity of audit performed by an external agency.

#### **Recommendation 42**

**We recommend that:**

- (1) Internal audit should be effectively organised in every public enterprise as a staff function.**
- (2) The principal tasks of internal audit should be—**
  - (a) to review the soundness, adequacy and application of accounting, financial and operational controls;**
  - (b) to ascertain the extent of compliance with prescribed plans and procedures and accuracy of accounts and other data developed within the organisation;**
  - (c) to make constructive suggestions for improvement; and**
  - (d) to review and report the action taken by line authorities on the points brought out in previous audit reports of internal as well as external auditors.**
- (3) Other duties that may be assigned to the internal audit organisation are—**
  - (a) to verify that proper authorisations exist for the acquisition and disposal of assets of the enterprise; and**
  - (b) to test-check a certain percentage of transactions and verify inventories with a view to helping in the prevention and detection of frauds, misappropriation and pilferage.**

8. We envisage a more positive role for finance organisations of public undertakings than that played by the finance department in the Government. We have suggested the appointment of the Financial Adviser to be made by the board itself so that the undertaking may not nurse a feeling that its activities are being watched critically by some one on behalf of Government who has no immediate interest in the undertaking itself. The essential role of the Financial Adviser at the sector level or the unit level should be that of the principal

adviser to the chief executive in all financial matters. The main aim of the finance organisation should be to:

- (1) feed management with timely information on the utilisation of resources;
- (2) make statistical analyses to bring out what the performance data truly signify; and
- (3) explore and recommend possibilities of reducing costs, with due regard to the maintenance of efficiency and quality.

The aim should not be to pre-check all transactions which the line authorities intend to make. Insistence on prior financial concurrence in the undertakings should be reduced to the minimum. While it is true that most line authorities find it irksome to obtain concurrence of the finance branch, it is also true that several of them are able, in this manner, to shelve responsibility and at times seek concurrence even in those matters for which they have adequate powers and which need not be referred to the finance branch. If not checked, these factors will make it difficult for the management organisation of the public undertakings to function with that initiative, speed and flexibility that must characterise their working.

#### **Recommendation 43**

**We recommend that:**

- (1) **It is of the utmost importance that the Financial Adviser of an enterprise should regard himself as an integral part of the management team and not look upon himself as an outsider representing the financial interests of the Government.**
- (2) **The Financial Advisers of undertakings, both at the sector level and at the unit level, should be encouraged to place greater emphasis on the management accounting aspect of their working.**

#### **Materials Management**

9. The efficient and economical use of materials is essential for the profitable operations of any undertaking. Materials management forms the most important part of the overall managerial effort at cost control. Except for the purely trading and financial concerns, a major share of the working capital of an undertaking relates to inventory holdings. Of the total working capital of Rs. 384 crores as at the end of 1965-66, relating to 40 running concerns of the Central Government, the inventories accounted for Rs. 361 crores. Of this, Rs. 222.5 crores was the value of raw materials, stores and spares (both of production and construction) and the remaining Rs. 138.5 crores related to works in progress, finished goods and other items. In addition to the funds that get tied up in this way, the inventory-carrying costs which are placed at 15 to 20 per cent of the value of the inventory also impose a heavy financial burden.

10. Materials management in the public undertakings was recently examined in detail by the Committee on Public Undertakings. Their findings as well as those of the expert committees that have been cited by the Study Team in its report indicate that many public undertakings have unduly large inventories. This is borne out from the comparison of the worth of inventory holdings of these undertakings with their net sales and cost of production. The sales-inventory ratio of the running concerns of the Central Government for the year 1965-66 is reported to be 2 : 1. The ratio was the same in 1964-65 also. This is less favourable than the ratio of 2.75 : 1 reported to be obtaining in the private sector. For the developed countries, this ratio is placed in the neighbourhood of 5 : 1. The same picture emerges on comparing the value of inventory holdings of public undertakings with their cost of production. In five undertakings, the inventory holdings were higher in value than two years' cost of production and, in five others, it was equivalent to less than two years' but over one year's cost of production. In their recent report on Materials Management, the Committee on Public Undertakings observed 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.....".

11. Based on its own study and the reports of the Parliamentary Committees and expert teams of the Planning Commission, the Study Team has pointed out the following deficiencies in the area of materials management :

- (i) the inventories of industrial running concerns were, in many cases, unjustifiably high;
- (ii) many undertakings were still to adopt scientific methods of inventory control;
- (iii) lack of materials and delays in delivery resulted in under-utilisation of capacity in some undertakings;
- (iv) several undertakings did not have proper storage and handling facilities or a proper system of physical verification and stores accounting; and
- (v) in many cases, purchase procedures were lengthy and involved a large number of references to the finance branch.

12. A considerable improvement in the above situation can be brought about through better organisation for materials management in the public undertakings, and by drafting and codifying procedures and instructions based on modern techniques of materials management like 'Codification and Classification' and 'ABC analysis'. Training in materials management and creation of permanent facilities for the purpose also requires special attention. This training should not be confined to the personnel of materials management department but imparted to the personnel of other concerned departments also, since the management of materials is an integrated programme which requires the cooperative action of all the concerned branches. Equally important is the simplification of the operating procedures to reduce the administrative lead-time in procuring the required materials.

**Recommendation 44**

**We recommend that:**

- (1) Materials management should be accorded due recognition at the top management level where a Central Control Section should be set up for materials planning and for securing the introduction of modern techniques.
- (2) A Materials Management Manual should be drawn up to give concrete shape to the relevant scientific concepts in each public undertaking and to outline the prescribed procedures in order to facilitate the general adoption of improved techniques.
- (3) Training in materials management should be given greater importance. In addition to having fully trained staff in the materials management organisation, it will be advantageous to have short-term training imparted to the personnel of other departments as well.
- 4) The operating procedures in the public undertakings should be simplified by taking among others, the following measures:
  - (a) on the basis of the annual and longer term plans of the undertaking, the Central Control Section for materials management and planning should draw up its own plan and assess the volume of work to be done and the amount and type of materials to be procured;
  - (b) rules involving financial concurrence should be clearly laid down for open tenders as well as limited enquiry tenders and standing committees should be set up for scrutiny and sanction of tenders to avoid inter-branch references within the undertaking;
  - (c) purchases within pre-determined financial limits laid down in the budget should not normally require prior financial concurrence except for the very costly items; and
  - (d) procedure for purchasing low cost items should be very much simplified, reducing or, if possible, even eliminating the need for enquiry and quotations.

13. It is also necessary to examine the causes which force the management to go in for heavy stocking of materials—external causes over which management has little or no control. In this area, Government have to shoulder a greater share of responsibility. These external causes and the resultant problems pointed out by the Study Team may be recounted 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.

14. The problem of stores and equipment required during the construction phase suddenly becoming surplus on the completion of the project will be largely met with the setting up of sector corporations. As we have indicated earlier, they will be in a position to secure greater and a more rational utilisation of these items on different projects under their control. The estimates for the procurement of these items should be conservative so that excessive procurement based on an over-optimistic schedule of construction is avoided. A Central Planning Group for materials under the engineer in charge of construction should be entrusted with the task of planning the total requirements and phasing their procurement. Excessive stocking of slow moving items which are in the nature of 'insurance spares' against unforeseen breakdowns can be controlled to some extent by having a team of Indian experts to check the estimates given by the foreign collaborators. The effective long-time remedy, however, lies in the promotion of indigenous manufacture of these items. The public undertakings also face difficulties in having to procure items from indigenous manufacturers even though they are of unsatisfactory quality. Mostly, their deliveries are not made in due time. In many instances, the undertakings have to pay at rates which are 25 to 50% higher than the import prices of similar items.

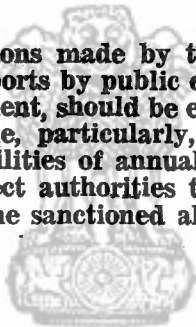
#### **Recommendation 45**

**We recommend that:**

- (1) Project authorities should be precise in estimating the requirements of items like earth-moving equipment, vehicles, common tools, etc. needed during the construction phase. In the larger projects, a Central Planning Group for materials should be set up, under the engineer in charge of construction, for planning the total requirements and phasing their procurement.
- (2) The recommendations made by foreign collaborators on the provision of spares should be scrutinised in comparison with the position prevailing in similar plants abroad, including the foreign collaborators' own plants.
- (3) A small cell comprising technical experts and materials management experts should be formed in each large

project, and especially in those with substantial dependence on imported items, to identify and catalogue the spares and to obtain their manufacturing drawings and specifications as a first step towards establishing their indigenous manufacture. Project authorities should take timely steps to create their own workshop facilities in respect of items required in small quantities and non-repetitively.

- (4) Government should evolve effective inspection arrangements to keep sufficient check on the quality of the products of indigenous manufacturers. They should not come to enjoy a monopolistic position, *vis-a-vis* the purchasing public enterprises under the shelter of Government's understandable desire to promote import substitution. Government should also formulate a uniform policy for the price preference that the public enterprises should extend to indigenous manufacturers to serve as guidelines for the public enterprises, the indigenous manufacturers and the Directorate General of Technical Development.
- (5) The recommendations made by the Mathur Committee for facilitating imports by public enterprises, and accepted by the Government, should be effectively implemented as soon as possible, particularly, the recommendations relating to the facilities of annual licensing and vesting of powers in project authorities to operate on foreign exchange within the sanctioned allocations.



सत्यमेव जयते

## CHAPTER VIII

### PERSONNEL

We now proceed to consider issues relating to personnel under the heads top management, personnel management and industrial relations. In making our recommendations on top management and personnel management, we have also taken into account the suggestions made by another Study Team, viz., the one on Personnel Administration.

#### Top Management

2. The one factor on which the performance of an undertaking depends most is the quality and effectiveness of its top management. The success or failure of a public enterprise is also directly related to the way in which matters like the set-up of the management boards and recruitment and terms of service of the senior executives of the undertaking are determined. Making appointments to the boards of management is one of the most important duties of the Government. It should be the prime concern of the Government to see that in making these appointments they select the best men available for the jobs and repose trust and confidence in them to enable them to take full responsibility and function effectively. At present, Government make the appointments to the board and also make, or approve, appointments to posts carrying salaries above Rs. 2,000 per month in respect of most undertakings and Rs. 2,250 or Rs. 2,500 per month in respect of the larger ones. Appointments to the posts of Financial Advisers or Financial Controllers of public undertakings are made either by the Government or with the approval of Government.

3. The Study Team has pointed out certain major deficiencies which characterise the manner in which Government have discharged their responsibility in regard to the appointment to the boards. Frequent changes have taken place at the top management levels and on many occasions posts have remained vacant for long periods. Generally, no qualifications have been prescribed for membership of the boards of management. The Study Team have reported that '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 only recently that the Bureau of Public Enterprises has been entrusted with the task of collecting information about the qualifications and experience of persons who may be considered for appointment to full-time posts in the boards and at top management levels of public undertakings and a Committee under the chairmanship of the Cabinet Secretary has been formed to draw up panels of suitable persons for these posts.

4. Government have drawn heavily on their own officers in making full-time appointments to the board and to senior posts for which powers of appointment are reserved to Government. While

many of the officers deputed to fill difficult jobs in the public sector have given a creditable account of themselves, the fact remains that in some cases the selections have not turned out to be satisfactory. The system is often criticised on the ground that these deputationists come as 'birds of passage' and have interests and loyalties outside the organisation in which they serve. In any case, dependence on deputationists for filling these top posts tends to retard the development of managerial resources from within the public sector itself.

5. As regards the appointment of part-time members of the board, we have earlier referred to the feature that most of them were Government officers. There are even some cases where the same Government officer serves as a part-time member on the boards of as many as 15 to 20 undertakings. In the case of non-officials also, there are cases where the same individual is serving on the boards of 25 to 30 undertakings in the public and private sectors. It is evident that such persons cannot be expected to devote the time and attention that their duties as board members demand.

6. There is an urgent need to systematise the manner of appointment of board members. Qualifications should be laid down for board membership as has been done in the United Kingdom in respect of the public corporations. We have already recommended that the number of Government officers nominated by the Government as part-time board members to sector corporations should be restricted to two. In making the nominations, it would be appropriate if the Government ensure that the same officer is not nominated on more than two or three boards so that he may be able to do justice to his assignments. We have also recommended that in respect of the posts of chief executive and financial adviser of a constituent unit the appointment should be made by the board in consultation with the Government.

7. The most important requirement today is that of ensuring growth of managerial resources within the public sector. We are convinced that there has to be a conscious effort to accord a preference to persons coming up from within the undertakings while making appointments to posts of chairmen, full-time members of the board and other senior appointments in public undertakings. It is important from the standpoint of morale and incentive that every person in a public undertaking should have a reasonable expectation that if he works hard and well, he will have the opportunity to rise to the highest positions in the undertaking. In our view, the ideal situation will be one in which persons growing up from within the undertakings come to man the top posts. However it may take some time for the public undertakings to throw up in sufficient numbers experienced and senior men, to occupy the top posts. It will, at times, therefore, be necessary to obtain the services of persons from outside the public sector, particularly from the Government. Further, it is desirable to inject a few persons from the outside at senior management levels, as is being done in other countries. However, such appointments should be exceptions rather than the rule and the appointments should not, in any case, be on deputation. Persons taken from outside for full-time service on the boards or as senior executives in the public corporations of the United Kingdom



are required to sever their connections with the parent service if they are Government officers, or, if they happen to be non-officials, with the private organisations with which they were hitherto connected. It may be that at such senior levels, Government officials would not be reluctant to sever connections with their parent service, especially if emoluments in the public sector compare favourably with those obtaining in the Government.

8. Considering the need for recruiting the best available talent for manning the top posts in the public undertakings, it is essential that the salaries and conditions of service attaching to these posts are adequate and attractive. At present, the salaries in the public sector have a maximum limit of Rs. 4,000 per month. Keeping in view the responsibilities of the job and the requirements of the situation, this limit should be enhanced in respect of the top posts of certain big public undertakings. With the setting up of sector corporations there will be cases where salaries higher than Rs. 4,000 would be required to be given to the chairmen and full-time board members. In deciding this question there should not be insistence on imposing the salary ceilings obtaining in the Government. The Study Team has cited the example of the United Kingdom where the chairman and other senior executives of several public corporations draw salaries higher than those paid to the senior-most civil servants there.

#### **Recommendation 46**

**We recommend that :**

- (1) While making appointments to the board, preference should be given to the officers working within the undertaking. The system of appointments should be in accordance with the basic principle that a person from the lowest ranks of service can rise to the top if he has acquired the necessary qualifications, and if his performance has been outstanding.
- (2) The whole procedure for the appointment of members of the board should be systematised. Action to fill these posts should be taken well in advance to avoid vacancies remaining unfilled and making appointments in haste. The new appointee should be placed in position as an understudy for a brief period of a month or so to get acquainted with the job before taking over the post.
- (3) The Bureau should draw up panels of suitable persons for board appointments. Selections to these panels should be made by a committee consisting of the Director-General of the Bureau of Public Enterprises and two chairmen of sector corporations. This committee should be reconstituted periodically to enable the chairmen of different sector corporations to be associated with it.

- (4) If sufficiently experienced and senior men are not available within the public undertakings for holding board memberships, suitable persons may be selected from among Government officers, leading industrialists and businessmen, and professional managers and specialists in the private sector. In such cases, persons selected should sever their connections with their previous organisations. In particular, Government officers selected for these posts should be asked to resign their service with the Government.
- (5) Certain general qualifications should be prescribed for the members of the board, *e.g.*, experience of industrial, commercial or financial matters, applied sciences or administration or trade union organisation. The chairman of the public undertaking concerned should be consulted before Government makes appointments to the board except in the case of part-time official nominees of the Government.
- (6) While appointing the part-time official nominees to the board, Government should see that persons nominated do not have to serve on more than two or three boards and are not so burdened with their substantive work that they find it difficult to play a useful part in board meetings.
- (7) Frequent changes and long vacancies in top posts must be avoided. The chairman and full-time functional members of the board should have a fairly long period of tenure to enable them 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 the full-time members of the board and a period of not less than two years for the part-time non-official members.
- (8) Salaries of persons occupying top posts in public undertakings should be fixed on the basis of the responsibility attaching to the posts and the needs of the situation, and need not necessarily be pegged to the scales obtaining in Government service.

### Personnel Management

9. The most important issues relating to personnel management for public enterprises concern the need for developing the required managerial and technical resources and the adoption of certain practices which are common in the successful private commercial concerns but are quite different from those followed in the Government. The most notable of these practices is the relatively greater speed with which competent men with initiative can advance in the enterprise and those found wanting dispensed with. Thus merit is at a greater premium and security of tenure characteristic of Government service is not present to the same degree in the service of the public undertaking. We would like to emphasise that these distinctive features should be recognised and public undertakings should make

greater use of the flexibility available to them in rewarding good work and punishing or removing from service those who are found wanting in performance. In fact, one of the advantages sought to be derived from the creation of a public undertaking is the freedom from the rigidity created by the rules and policies relating to personnel matters which necessarily have to be followed in a Government department.

10. One significant defect in our system is our failure to recognise that management of personnel is an inherent part of total management and that the responsibility for personnel management cannot be discharged by an authority remote from the operational area. In our view the senior executive of an operating unit should have sufficient administrative control over the personnel under his charge to be able to manage them effectively. He should, in fact, be held responsible for performing this function efficiently. This basic consideration underlies our recommendations about the formation of cadres in the public sector and the conferment of powers to the sector corporations and the constituent units in regard to recruitment, promotion, training and discipline.

11. We shall now consider the desirability of constituting a common cadre for the managerial and technical personnel required by the public undertakings. The Estimates Committee had also recommended the setting up of an Indian Commercial and Industrial Service to which recruitments could be made from among persons experienced in business, commerce or industries. A factor that should be borne in mind in this connection is that while posts on the administrative side may have certain general common requirements, the job requirements on the technical side are bound to vary from industry to industry and, at times, from undertaking to undertaking even within the same industry. Perhaps for this reason when Government formulated a scheme of Industrial Management Pool (IMP), they excluded technical posts from its purview. The IMP to which about 200 persons were selected in 1959 is the only step Government have taken for developing a common cadre for manning the non-technical posts in the public undertakings. We have examined the working of this scheme and find that this experiment did not prove successful. Any pool scheme administered by an agency external to the public sector inevitably results in a certain degree of abridgment of the autonomy of public undertakings. The IMP Scheme, of which the Ministry of Home Affairs is the Controlling Authority, attempted to overcome this defect through a compromise by stipulating that it was neither obligatory for the controlling authority to supply a Pool officer for every vacancy nor for the participating undertaking to accept a Pool officer for a particular vacancy. Experience has shown that this formula did not work well at all and it became very difficult to have some of these Pool officers absorbed or moved from one undertaking to another in a systematic way. Of the 200 persons initially selected in 1959 to the Pool, only 130 could be accommodated by the public undertakings. The IMP Scheme did not prove successful because it lacked the authority for its implementation. On the other hand, it is argued that the authority to implement a pool scheme of this nature can be created only at the expense of the operational autonomy of the public undertaking.

12. We are, therefore, of the view that it is neither necessary nor desirable to constitute a common cadre for the managerial and technical personnel for the public sector as a whole. Nor is it desirable to revitalise the old Industrial Management Pool Scheme. We also do not envisage any external agency for undertaking the recruitment of the personnel required by the public enterprises. Even at present public undertakings enjoy near-total autonomy in the matter of recruitment and promotions except for the few senior posts to which appointments are made by the Government or with the approval of Government. We agree with the Study Team that the setting up of a personnel commission for the public sector will not only abridge the autonomy of the public undertakings but also result in delays in the manning of posts in the undertakings. We also agree with the Study Team that the sector corporations will themselves be able to 'ensure regularity and uniformity in selection as well as service conditions'.

13. The Study Team has pointed out that despite the fast rate of expansion, public undertakings have not been able to take full advantage of the promotion opportunities offered by this expansion. Side by side with quick cases of promotion there have been cases where experienced persons have left the undertakings for lack of promotion opportunities. We feel that the main reason responsible for this is the lack of career development schemes in the public undertakings. A few undertakings which have evolved career development plans have found them of considerable help in attracting and retaining suitable personnel. We would like that such programmes should, as far as practicable, be taken up by every undertaking. The effectiveness of career development plans depends on the promotion prospects available in the undertakings. In the small public undertakings, these prospects are often quite inadequate. In this connection, the Study Team has suggested the formation of a new pool of officers for manning posts carrying a scale of Rs. 1,300 and above in the small undertakings. We, however, feel that this pool scheme will also suffer from the same disabilities as the old Industrial Management Pool and do not, therefore, recommend it. The situation will have to be met by making some of the sector corporation's personnel available for manning the top posts in small undertakings which are not included in any particular corporation. To provide a career development programme for each one of small undertakings which stand outside the regions covered by sector corporations will not be a practicable proposition.

14. The possible alternative to a single common cadre for all public undertakings is the formation of separate cadres for different sectors of industrial and commercial enterprise. Indeed, this would be facilitated once the sector corporations have been set up. It would then be possible to administer a cadre which is common to all the constituent units of the corporation, without having to confer authority for this purpose on an agency which is external to the public sector. It is necessary to consider this question in the context of the operational autonomy required by the constituent units. We feel that except for the higher levels, full powers should be conferred on the constituent units regarding the recruitment, promotions and disciplinary control of the staff employed by them. While the

terms and conditions of service and rules therefor may be drawn up for all the constituent units of the corporation on a uniform basis, administrative powers in these matters in respect of clerical staff, workers, and the first and second supervisory levels of managerial and technical personnel should be with the constituent units. It is only for posts above these levels, generally carrying salaries above the minimum starting level of Rs. 1,300 per month or so, that any powers need be kept with the sector corporations. Even then, officers occupying posts above this level in a constituent unit should be under the administrative control of the management of that unit in the same manner as officers of the All-India Services, appointed by the Central Government, are under the control of the State Governments to which they are allotted. Provision may, however, be made for hearing of appeals by the corporation and for reserving powers with the corporation in regard to punishments imposed on senior officers which involve termination of services. In respect of heads of departments, the power to impose punishment involving reduction in rank should also remain with the corporation. It will be advisable to provide for an appeal to lie to the Government against an original order of the corporation imposing a major punishment on a senior officer except where services are terminated after notice in accordance with the terms and conditions of service.

#### **Recommendation 47**

**We recommend that :**

- (1) Every sector corporation should evolve a common policy for laying down, on a uniform basis, the terms and conditions of service of employees of the corporation.**
- (2) Except for the higher levels of managerial and technical personnel such as posts with a minimum starting salary of Rs. 1,300 per month or so, full powers of recruitment, promotion and disciplinary and administrative control of staff employed in a constituent unit should be with the unit itself. The sector corporation should, however, have the authority of making inter-unit transfers within the corporation in consultation with the units concerned.**
- (3) Authority for recruitment, promotion and transfer, etc. of persons occupying senior posts described at (2) above, should be vested in the sector corporation. However, all officers in the constituent unit should be under the administrative and disciplinary control of that unit, provided that powers of deciding appeals and of imposing a punishment involving termination of services of a person occupying a senior post should remain with the sector corporation. In respect of heads of departments, the power to impose punishment involving reduction in rank should also be reserved to the sector corporation. An appeal should lie to the Government against an original order passed by the sector corporation if it is one of dismissal, removal from service or reduction in rank. The appeal should be decided in consultation with the Union Public Service Commission.**

- (4) The sector corporations and their constituent units should make their own administrative arrangements for carrying out the recruitment and training programmes.
- (5) Arrangements should be made for providing from sector corporations suitable officers to the smaller public undertakings which do not belong to a sector corporation. The possible requirements of such smaller public undertakings for experienced personnel should be kept in view by the appropriate sector corporation. The Bureau should draw up panels under the direction of the committee, consisting of the Director-General of the Bureau and two chairmen of sector corporations, for facilitating such inter-undertaking transfers. The assistance of this committee can also be taken when inter-corporation transfers are found to be necessary.

15. A striking feature of the pattern of staffing in public undertakings is the continued dependence on deputationists for manning middle management level and higher posts. The analysis made by the Study Team of the data furnished by 29 Central Government undertakings shows that in respect of middle management level posts and above, deputationists occupy as many as 38 per cent of the posts in the finance and accounts organisations of these undertakings and 33 per cent on the personnel and general administration side. On the technical side, only about 3 per cent of the posts are occupied by the deputationists. A constant inflow of deputationists in the senior management levels is not desirable because it will be difficult for the deputationists to identify themselves adequately with the undertakings while they continue to look to their parent departments for future promotion. If a considerable portion of top level management personnel do not have the sense of belonging to the enterprise, it is difficult for the undertaking to achieve maximum success. We agree with these points stressed by the Study Team. We, however, do not subscribe to its view that there is such a paucity of managerial personnel in the public sector that the deputationists must for a long time continue to be employed in the public undertakings. A number of experienced persons are available in the public sector who have been in the service of undertakings which have been running for the last 10 to 15 years. We think that it is necessary and also possible to reduce and ultimately stop the inflow of deputationists by giving preference in selection to the personnel working in the public undertakings and by permanently absorbing those who are recruited from outside.

16. We have emphasised the importance of giving preference to persons working in the undertakings for manning senior posts. There will be occasions, however, where a suitable officer is not available in the undertaking and more suitable persons may be available in other fields. In such an event, the attempt should be to scan all possible areas of recruitment and get the best man available for the job. The selections of such persons should, however, as a general rule, result in their permanent absorption in the service of the undertakings and not in their coming on deputation. Only when no suitable alternative is available should a person be taken on deputation terms. At the same time steps should be taken to eliminate short tenure appointments which result in frequent changes.

**Recommendation 48**

**We recommend that :**

- (1) All necessary steps should be taken to reduce and eliminate the dependence on deputationists in manning posts in the public sector.**
- (2) For manning senior posts, preference should be given to persons working in the undertaking. If no suitable person is available in the undertaking, the best available person may be selected by tapping all possible sources including other public undertakings, the Government and the private sector. The appointment should, as far as possible, be on a regular basis and not on terms of deputation.**
- (3) In the rare case when it becomes unavoidable to take an officer on deputation for want of a suitable alternative, the term of employment in the undertaking should, under a contract, normally be for a period of five years with a provision for review at the end of the first year to enable termination of cases of maladjustment.**
- (4) Service rules relating to Government officers should be liberalised for facilitating the permanent absorption of deputationists at any level in the service of the undertaking. Similarly, rules standing in the way of a sufficiently long term of deputation in the public undertakings should be modified to ensure a minimum five-year period.**

17. The salary structures adopted in different public undertakings are not on a uniform pattern. The same is true of dearness allowance, project allowance, retirement benefits, etc. The Estimates Committee had recommended that a high-powered committee should examine the position in this respect with a view to ensuring uniformity. Government in their reply stated that while pay scales for different categories of posts should be broadly indicated by the Government, the board of directors, while being guided by these scales, would be free to fix specific scales for specific jobs. We feel that the number and variety of jobs are so great in the public sector that the task of even broadly laying down the standard scales of pay is an extremely difficult one and one which may detract from the flexibility that managements should have in determining salary structures suited to the requirements of the undertakings and the industry as a whole. It is to be noted that a good deal of uniformity will automatically come about with the setting up of sector corporations. The chances of glaring disparities in the pay scales obtaining for similar types of jobs in different public undertakings can be much reduced if the necessary information is compiled at one central point, like the Bureau of Public Enterprises, and disseminated to all public undertakings and the Ministries concerned.

**Recommendation 49**

**We recommend that :**

- (1) Enforcement of a uniform pattern in the matter of pay and allowances of employees in the public sector will 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 as an advisory service instead of insisting on prior Government approval or conformity with rigid guide-lines.**
- (2) The Bureau should act as a clearing house of information relating to service conditions, pay scales and allowances in force in different public undertakings. This information should be made available to public undertakings and the controlling Ministries. In case, any undertaking goes seriously out of line without due justification, Government will always be in a position to correct the situation by issuing a directive.**

18. Scarcity of trained manpower operates as a severe constraint on the efficient running of public enterprises and the growth of the public sector. Public enterprises which generally operate on a big scale need a large number of specialists such as applied economists, experts in market research and operations research, company secretaries, cost accountants, materials management experts, personnel managers and experts in work study and productivity. It is in these fields that the public undertakings will face increasing difficulties particularly with the setting up of sector corporations which have to be equipped with adequate staff organisations. In addition, public undertakings which have entered into new areas of industry like oil exploration, heavy electricals, etc. face another problem posed by their particular requirement for the specialists needed in those areas. Such undertakings have either to depend on training facilities abroad or create their own training capacity at their expense.

19. The first step for meeting manpower requirements and devising adequate training programmes is to have a proper assessment of the manpower needs of public undertakings. The Study Team has reported that there is not sufficient awareness in this respect in the public undertakings and has suggested that the manpower requirements forecast by the undertakings, at the instance of the Home Ministry and the Planning Commission for the Fourth Plan and the Fifth Plan periods need to be rechecked by an expert body as most undertakings do not have the necessary expertise for manpower forecasting.

20. As for the arrangements for training specialists in different fields, we notice that only a few undertakings have set up their own institutions and they too are beset with the problems of expense and inadequate utilisation of training capacity. The Institutes of Management and certain associations of specialists offer training courses in various professions which can be made use by the public undertakings.



We agree with the Study Team that there has to be a coordinated approach to training so that effort is not duplicated and scarce talent and funds not wasted by a number of institutions attempting to do the same job. Steps have also to be taken to see whether the courses offered by the existing training institutions are up to standard and designed to cater to the special requirements of the public undertakings. The Bureau too can play a useful role in helping to review training programmes and in securing greater cooperation between the public undertakings and the training institutions that are already functioning in the country.

#### **Recommendation 50**

**We recommend that :**

- (1) The survey of additional requirements for managerial and technical manpower for the Fourth and Fifth Plan periods, made recently by the public undertakings, should be further 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 programme, particularly for the specialised branches.**
- (2) Public enterprises need not assume responsibility for basic training in general management, and training in professions. The existing training institutes should be utilised for imparting this type of training.**
- (3) The Bureau, in cooperation with the public undertakings and the Ministries concerned, should—**
  - (a) review the existing training facilities and programmes to avoid duplication of effort;**
  - (b) identify areas where training facilities need to be extended or increased; and**
  - (c) evaluate the suitability of training programmes to the requirements of the public sector.**
- (4) Training of specialists and technicians required only by the public undertakings will have to be taken care of by the undertakings themselves. Undertakings operating in the same field of technology should do this in cooperation with each other. Where sector corporations are set up they should provide common training facilities.**

21. Public undertakings are believed to be generally over-staffed and have frequently been criticised by the Parliamentary Committees for this. The Study Team has reported that 'although over-staffing does exist in many projects, its extent and nature is yet to be fully analysed and assessed'. A comparison of the forecasts made in the detailed project reports of various steel plants, fertiliser projects, heavy electricals plants, etc, shows that actual staff strength is much in excess of that estimated in the project reports. It is true that many of these reports did not cover all the departments of (the)

projects and were based on assumptions made by the foreign consultants which were often not very accurate. There is no doubt, however, that scope exists for reducing the staff in the various public undertakings. Over-staffing is one of the reasons for the higher operating costs of many of our public enterprises. A comparison of the staff strengths in the public undertakings and its counterparts in the private sector can yield useful information. Data collected in respect of the Indian Oil Corporation and the private oil companies indicate that below the middle management level, the staff strength in the oil refineries and in the marketing division of the Indian Oil Corporation, is larger than in the oil companies in the private sector. An examination of comparative data and the steps taken by the private oil companies to retrench staff can yield possible solutions for application in the public sector as well.

22. The Study Team has outlined the main reasons for over-staffing as follows:

- (i) lack of manpower planning on a scientific basis in the initial stages;
- (ii) failure in the initial stages to limit recruitment to manifest needs and a tendency to go up in a routine way 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.

23. The Study Team has referred to the indications given by some public undertakings that 'political and administrative pressures have created difficulties in the way of their shedding surplus staff'. The reasons for over-staffing as also the solutions therefor are well-known but various difficulties arise in adopting the solutions. The best solution, of course, is to take adequate precautions against over-staffing at the very beginning as it becomes extremely difficult to retrench surplus staff later. The staff engaged during the construction phase also poses a serious problem once the project goes into operation. Some retrenchment at this stage is unavoidable and should be resorted to. Steps should be taken alongside to secure alternative employment for retrenched personnel. One way to mitigate this problem is to limit departmental construction as much as possible and then to fully utilise the opportunities offered by the needs of expansion or new projects, to absorb surplus staff.

## **Recommendation 51**

**We recommend that :**

- (1) Proper work standards and other control techniques should be adopted from the very beginning to avoid over-staffing.

- (2) In the undertakings where over-staffing has become chronic, work studies should be undertaken by industrial engineers to find out the extent and area of over-staffing.
- (3) The normal vacancies occurring in the over-staffed departments may be left unfilled; employees who are found surplus may be allowed to freely apply for jobs outside. Skilled workmen should be persuaded with the help of incentives, if necessary, to do without the assistance of helpers. The practice of having helpers should not be allowed in the new projects.
- (4) Greater use should be made of the construction corporations in the public sector and non-departmental agencies wherever such a course is feasible.

24. While surplus personnel do create a problem, a different type of problem is created by the migration of managerial and technical personnel from undertakings where their services are required. The Estimates Committee in its 52nd Report (March 1964) has pointed out that about 4,857 technical and managerial personnel left the public undertakings during the three years immediately preceding 1963-64. Based on their own study and the study undertaken by an officer of the Indian Institute of Public Administration, the Study Team has arrived at the finding that the problem of flight of personnel is not a general phenomenon in the public sector as a whole, but unplanned movements of technical personnel have taken place in several undertakings. The main causes for these unplanned movements are reported to be:

- (i) a scarcity of qualified technicians in certain fields, particularly for technicians and engineers who have had some years' operational experience;
- (ii) differentials in the pay scales offered by undertakings within the public sector itself and the better terms generally available in the private sector;
- (iii) inadequate opportunities for advancement; and
- (iv) dissatisfaction with work environments.

25. We notice that the problem of staff turnover is not much in respect of non-technical personnel but in the case of technical personnel some undertakings are facing an acute problem. Heavy Electricals, Bhopal, in particular, have a serious problem. To a lesser extent, the Neyveli Lignite Corporation, the Indian Oil Corporation, the Hindustan Machine Tools and a few others are facing similar difficulties. Where persons leave after having been trained at the undertaking's expense, the undertaking sustains a direct loss in terms of expenditure, and if training has been imparted abroad, there is a further loss suffered in the shape of foreign exchange.

26. A number of technicians and engineers who received foreign training at the expense of public undertakings have left service with them even before the expiry of the period of service stipulated in the bonds executed by them. 29 such persons left from Heavy Electricals, Bhopal, 18 from the Indian Oil Corporation and 9 from the Heavy Engineering Corporation. It has been possible for these

undertakings to recover only a part of the expenditure incurred on training of these persons. For instance, out of over Rs. 8 lakhs spent on the 29 trainees who left Heavy Electricals, Bhopal, only Rs. 1.38 lakhs have been recovered. We would like to emphasise that the flight of such personnel who leave after being trained abroad at the expense of the undertaking should be viewed very seriously. The amount for which the bonds should be executed by these trainees should be a fair proportion of the amount spent on them during training and should contain such terms and conditions as are sufficient to deter persons from leaving the undertaking soon after training. Provision should also be made, by legislation if necessary, to enable speedy recovery of the amount of the bonds in the event of their forfeiture.

27. It is also important that the technical personnel in the public undertakings do not have to resort to leaving their jobs because of gross inadequacy of promotion prospects. We feel that with the setting up of sector corporations which will be in a position to offer much wider prospects and with the introduction of effective career development schemes, the dimensions of the problem will be considerably reduced.

#### **Recommendation 52**

**We recommend that :**

- (1) Any advanced training programme given during the course of a period of service should be linked to a definite ladder of promotion so that technical personnel after such training can look forward to comparatively early promotions to higher grades.
- (2) Persons selected for training should be required to execute a bond to render service for a minimum period of five years after the completion of training. The amount for which the bond should be executed should be a fair proportion of the total amount spent during the training course, and, in the event of infringement, the conditions of the bond should be rigidly enforced. Provision should be made, by a special enactment, if necessary, to enable the recovery of the amount of the forfeited bond in a manner similar to the recovery of arrears of land revenue.
- (3) A person who resigns or deserts from the service of a public undertaking within the period for which he has bound himself to serve the undertaking should not be employed under the Government or in a public undertaking till the amount due from him has been fully paid to the undertaking concerned.

#### **Industrial Relations**

28. We are aware that the subject of industrial relations in the public sector is also being looked into by the National Commission on Labour, set up by Government in December 1966 with very wide

and comprehensive terms of reference. We have, therefore, limited our examination to a few of the important issues relating to this subject—the problems of labour-management relations and the strategy that should be adopted to increase the productivity of labour in the public sector. The manner in which these issues are resolved is of vital significance to the successful performance of the public enterprises.

29. While Government's labour policy does not distinguish between public enterprises and private concerns in the application of labour laws, it is expected that the public enterprises will conduct themselves in labour matters as 'model employers' and in a manner that may stand out as an example to the private concerns. The Guide on 'Labour Laws and Practices' brought out by the Ministry of Labour, Employment and Rehabilitation attempts to give an indication about the special obligations of public sector managements. It suggests that managements should discharge their responsibilities with exceptional care and should adopt a really enlightened policy in labour matters. We feel that it is also important that the managements evince keen and lively interest in the welfare of the workers and orient their personnel policies towards developing the capabilities of the workers and improving their prospects and standard of living. It is equally important not to misinterpret the model employer concept to mean an approach so paternal as to overlook indifferent work and incidents of indiscipline. Such an approach will not be in the ultimate interest of the workers themselves.

### **Recommendation 53**

**We recommend that:**

- (1) The special obligations of managements in the public sector with regard to labour matters should be spelt out more clearly by the Government<sup>†</sup>.**
- (2) Managements of public undertakings should evince keen interest in the welfare of the workers. The personnel policies of public undertakings should be such as would develop the skills and capabilities of the workers and improve their prospects and standard of living.**
- (3) The model employer concept should not be construed to mean that supervising officers should condone or be lenient towards indifferent work or acts of indiscipline.**

30. The basic requirement of proper labour-management relations is that the employers effectively discharge their statutory obligations. The examination of the Study Team shows that there have been delays and deficiencies in this respect and that many undertakings are yet to frame the necessary Standing Orders or a proper procedure for the redress of grievances. This is in spite of the fact that Government have circulated model Standing Orders and grievance procedure for the guidance of managements. These deficiencies may largely be attributed to the preoccupation of managements

during the initial periods with the task of getting the project completed and commissioned. Further, they are also partly attributable to the lack of efficient and effective personnel departments in several undertakings. The officers of the personnel department who are on deputation from the Central or the State Governments do not, in many cases, have professional qualifications or experience in handling labour matters. The organisation of the personnel and labour department is also not on the right lines in most undertakings. The same set of officers have been entrusted with functions relating to 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. We agree with the Study Team that 'if labour officers are to be effective in dealing with workers, it is necessary that they do not have to share responsibility for decisions that might become the subject matter of disputes'.

31. The Study Team has also made a reference to the Central Pool of Labour Officers maintained by the Ministry of Labour, Employment and Rehabilitation. While we agree with the Team that experienced officers of the Central Pool can be usefully employed in the public undertakings, we consider that the deputation of officers from an outside pool from one undertaking to another from time to time does not help develop a sense of commitment to the enterprise. In case, experienced pool officers are available, the attempt should be to have them permanently absorbed in the service of the public undertakings.

#### **Recommendation 54**

**We recommend that:**

- (1) It should be ensured that every public undertaking effectively discharges all the statutory obligations imposed on the employers by the labour laws. The controlling Ministry and the Ministry of Labour, Employment and Rehabilitation should undertake periodic reviews for this purpose.
- (2) Public undertakings should have their personnel managers trained in industrial relations and labour management and should adequately strengthen their personnel departments.
- (3) A professionally qualified and experienced labour officer should be available at a sufficiently senior level in the personnel department. He should have the facility of direct approach to the chief executive in case he felt that his advice was being unjustifiably disregarded by any line authority.
- (4) Officers entrusted with labour relations should not shoulder any direct responsibility in matters like recruitment, promotions and disciplinary action against workers.

- (5) As a rule, a separate section should be established exclusively for labour relations within the personnel department; in the larger undertakings, a separate department should be organised solely for labour relations.
- (6) The labour officers of the Central Pool maintained by the Ministry of Labour, Employment and Rehabilitation may in suitable cases, be got permanently absorbed in the service of the public undertakings. An outside pool need not be maintained for the purpose of deputing officers to the undertakings.

32. In the matter of facilities like housing, schools and hospitals, the public undertakings have generally made provision on a liberal scale. In some cases, work and expenditure on township and allied facilities have preceded even the setting up of factory buildings. It is customary in industrial and commercial concerns that expenditure is first concentrated on essentials and it is only when the unit has gone into production that the returns derived therefrom are applied to progressively extend the amenities required by the staff and workers. In certain cases, the expenditure on these items has been a sizeable portion of the total capital expenditure incurred on the project. As mentioned earlier, the estimated capital outlay on townships and ancillary facilities for the Central Government undertakings is of the order of Rs. 300 crores, i.e. over a tenth of the corresponding total outlay on these projects. Besides, recurring subsidies have to be borne by the undertakings in defraying the expenditure incurred on the upkeep and maintenance of townships. This expenditure is much in excess of the aggregate amount recovered from the staff and workers enjoying township facilities. Such an additional liability discharged by the public undertakings leads to increase in production costs and tends to distort their financial results. It is necessary for this purpose to maintain and show separate accounts of the expenditure incurred on township and other facilities and the recoveries made from the staff and workers; this whole area being treated as a separate unit of administration. Considering that workers in municipal areas are required to pay a number of local taxes in order to support the municipal services run for their benefit, there is no reason why a similar tax should not be borne by the residents of a township where substantial expenditure is incurred on roads, street lighting, sanitation and other arrangements. We feel that as far as possible the unit of administration entrusted with township affairs should be able to pay its way with the help of such subsidies from the public undertaking as may be required in the beginning. There should be a committee for the management of the township in which representatives of workers elected from among themselves should be included.

33. We also find that there are wide variations in the expenditure incurred on workers' amenities as between the different undertakings. While it may not be practicable or desirable to lay down rigid financial limits for this purpose, it is necessary to ensure that glaring disparities do not give rise to a cycle of escalating demand in the public sector. As remarked by the Committee on Public Undertakings in their 8th Report (May 1965), 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'.

### **Recommendation 55**

**We recommend that:**

- (1) Township and connected facilities should form a separate unit of administration managed by a committee consisting of the officers concerned of the public undertaking and a few representatives elected by the staff and workers living in the township from among themselves.**
- (2) The township administration, in discharging its responsibilities for maintaining sanitation and other municipal services should be required, as far as possible, to pay its way with the help of recoveries of rent and such taxes as may be imposed by the management committee of the township.**
- (3) Variations in the amount of subsidy given by different public undertakings in respect of expenditure incurred on various items of workers' welfare should be examined by a committee comprising the representatives of selected public undertakings and the Ministries concerned with a view to laying down guide-lines and norms.**

34. The relations between labour and management in some public undertakings have been far from satisfactory. A number of references have been made to this in the various reports of the Parliamentary Committees. In some undertakings, e.g., the Durgapur Steel Plant, Sindri Fertilisers Plant, Heavy Electricals Plant at Bhopal and the undertakings at Ranchi, not only have strikes taken place but there have been cases of serious disturbances of law and order and acts of violence have been committed against the property of the public undertakings. Such incidents are not only harmful but particularly incongruous in the public sector where the assets constitute social property and the managements, as agents of the State, are entrusted with the responsibility of managing this property in the collective interest. Moreover, whether an undertaking is in the public or private sector, it is essential that agreements between labour and management are arrived at through collective bargaining and voluntary agreement. Any decision arrived at through coercion or threat of force is bound to lead to unsatisfactory implementation.

35. Although in a democracy strikes, except under certain circumstances, have been recognised as a legitimate weapon in the armoury of labour, it has to be appreciated that they should be employed as a last resort when all other avenues of reaching an agreement with the management have been exhausted. We should also recognise the fact that the rule of law of a very extensive and fundamental kind prevails in the country. If judicial interpretation is final as



between the Government and the citizens, there is no reason why it should not be so as between the managements and workers of public enterprises. Besides, strikes affect not only the workers and the employers but also the community at large. If the strike occurs in a public service, e.g., a strike in the airlines, the inconvenience felt by the community is direct and immediate. If it occurs in an industry producing basic goods, the loss of production affects the economy as a whole and will ultimately result in the consumer having to pay a higher price. Public undertakings are mostly operating in the fields of public utility services and basic industries. It is evident that in their case it is all the more necessary that strikes and cessation of work are avoided and the people are not made to pay the price for the strikes whether they result due to inept handling by the management, or the illegitimate activity of the workers' unions or the ineffectiveness of the conciliation and adjudication machinery. The Industrial Disputes Act lays down certain conditions under which a strike becomes illegal and punitive action can be taken against the workers and other persons taking part in it. But, there have been occasions where strikes have taken place in public undertakings in contravention of the provisions of the Industrial Disputes Act and yet no effective action has been taken later on. We feel that any union resorting to an illegal strike should be immediately de-recognised and the workers taking part in such a strike rendered liable to removal from service after a summary inquiry. At the same time, an illegal lock-out should be as firmly dealt with as an illegal strike.

36. The Labour Ministry have undertaken a number of case studies of industrial relations in the public undertakings where disputes between labour and management had led to strikes and cessation of work. The conclusions of these case studies as well as the analysis of the information obtained by the Study Team show that the grounds on which agitations were launched included non-acceptance of awards, disputes regarding bonus and allowances, alleged assignment of additional work and disciplinary action against workers and retrenchment of staff. Whatever the grounds, these incidents occur when the normal machinery of labour-management negotiations and the conciliation machinery is either ineffective or breaks down. The Study Team has reported 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 Study Team has suggested that the possibility of adopting the 'check-off system' (under which union dues are collected by making deductions from wages) should be examined as it would lead to an automatic verification of the membership of different unions and would also mitigate the difficulties experienced by the unions in realising union dues.

37. Rivalries between unions increase with the proliferation of unions in an undertaking and when there is no effective way to check rival claims as to strength and membership. There is no provision in a Central Act for statutory recognition of unions. Though the Indian Trade Unions Act, 1926 provides for registration of unions, under certain conditions, it does not cast any obligation on the unions to seek registration under the Act, nor does it impose

any obligation on the management. However, legislation on industrial relations enacted in Maharashtra, Rajasthan and Madhya Pradesh provides for statutory recognition of unions under certain conditions and also confers certain rights on the recognised unions. In other areas, the voluntary Code of Discipline lays down the criteria which the managements are expected to keep in view while extending recognition to the unions. This Code, however, does not specify the rights of a recognised union *vis-a-vis* an unrecognised one. Even an unrecognised union can raise disputes, get conciliation proceedings started and take matters to adjudication. It is quite possible that, in many cases, unions raise their demands to attract greater membership and raise more funds. It is necessary to improve the present laws and rules to check these tendencies, enable the growth of healthy trade union movement and check the proliferation of unions and the rivalries between them.

38. A simple way of avoiding the difficulties created by the proliferation of unions and inter-union rivalries would be to provide for all the workers electing their representatives who would bargain on their behalf. Each worker should have the right to vote in electing these representatives by secret ballot once every two years. A Labour Council elected in this manner would be truly representative of the workers and would be competent to negotiate with the management on labour matters. There should be no difficulty in holding the elections because the management organisations could do this with the help of the Government machinery. To implement this scheme necessary changes will have to be made in the labour laws in their application to public undertakings. Labour-management relations in the public sector should not be viewed from the same angle as in the private sector. Consequently, laws governing these relations in the public sector need not necessarily be identical with those applicable to the private sector.

#### Recommendation 56

**We recommend that:**

- (1) Labour laws applying to public undertakings need not be indetical with those applicable to private concerns.
- (2) Cases of illegal strike in public undertakings should be dealt with firmly. The union responsible for launching such a strike should, if it is a recognised union, be immediately de-recognised. Provision should also be made to remove from service, after summary inquiry held in consonance with principles of natural justice, such workers as are proved to have taken part in an illegal strike.
- (3) Feasibility of adopting the 'check-off system' (under which union dues are collected by making deductions from wages) in the public sector should be examined.
- (4) Labour Councils with a prescribed number of members, should be formed for conducting negotiations with the management on labour matters. The members of the Council should be elected once in two years by all the workers, each of them having one vote.

39. The State Governments are, for most of the public undertakings, the appropriate Government for matters relating to the settlement of industrial disputes under the Industrial Disputes Act, 1947. The air corporations and the undertakings in the mining sector and the oil fields are exceptions; for these, the appropriate Government is the Central Government. Multi-unit undertakings like the Hindustan Steel, Hindustan Machine Tools, and Fertilizer Corporation of India, which have projects operating in more than one State, experience difficulty in having to comply with different State labour laws. We notice that the existing division of jurisdiction between the Central and State Governments has led to difficulties in starting proceedings of conciliation and arbitration of disputes in projects that have units in more than one State. It is understood that the Labour Ministry is re-examining this issue to overcome these difficulties. We have considered this matter in the light of our recommendations for the setting up of sector corporations which will have responsibilities for managing units in a number of States. We feel that it would be advantageous to bring certain categories of heavy industries within the Central sphere as it is in this area of enterprise that most of the multi-unit corporations are functioning and the sector corporations will be set up. It is true that the cooperation of the State Governments is essential for handling problems of labour-management relations and strikes, and we are confident that such cooperation would be forthcoming even if the Central Government is designated as the appropriate authority for matters relating to disputes under the Industrial Disputes Act in regard to the industries mentioned above.

#### **Recommendation 57**

**We recommend that for matters relating to settlement of disputes, the Central Government should be designated as the appropriate Government under the Industrial Disputes Act, 1947, for certain additional categories of heavy industries which would cover units like the steel plants, heavy electricals plants, fertilisers and chemicals plants, aircraft manufacturing units and shipyards.**

40. Inadequate communication between workers and management and the lack of joint consultative machinery are also important reasons for the present unsatisfactory state of industrial relations. Communication between labour and management is important for promoting proper understanding between the two and appreciation of each other's problems. An effective way of securing good communication between labour and management is by developing the joint consultative machinery in the undertakings. Under the Industrial Disputes Act, 1947, the appropriate Government can require an undertaking to set up Works Committees comprising an equal number of representatives of management and workers with functions to promote measures for securing and preserving good relations between the employers and workers and to comment upon matters of common interest or concern and to endeavour to compose differences of opinion on such matters. The Study Team has reported that for lack of

positive response, the Works Committees that have been set up in the public undertakings are yet to function effectively. In the large undertakings, lack of communication and the resultant spreading of wrong information among the workers detracts from their willingness to cooperate with the management and to do more for the undertaking. The need for a properly functioning consultative machinery is all the greater in the larger public undertakings.

### **Recommendation 58**

**We, therefore, recommend that managements should regard 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 discussions.**

41. Besides the Works Committee, there is another joint body of the management and workers, namely, the Joint Management Council, which exercises supervisory, advisory and administrative functions in matters concerning safety, welfare, etc. It has been possible to introduce the scheme of Joint Management Councils sponsored by the Government as a purely voluntary scheme only in a few undertakings like the Hindustan Insecticides, Hindustan Machine Tools, National Coal Development Corporation and the Fertilisers and Chemicals Travancore, Limited. We find that the scheme has not made much headway despite the setting up of a special unit in the Labour Ministry to look after its working. An essential criterion for the formation and success of Joint Management Councils is that there should be a well established and strong trade union functioning in the undertaking. This criterion is, in most cases, not satisfied. We therefore, suggest a form of Management Council in which the members on the workers' side will be elected by all the workers themselves and not nominated by unions. This should provide better chances for the successful functioning of the Joint Management Councils.

### **Recommendation 59**

**We recommend that in the Joint Management Councils the workers' representatives should be elected by all the workers and not nominated by the unions.**

42. Increasing the productivity of labour is of crucial importance to the performance and development of the public sector. In our view, a concerted effort needs to be made to increase motivation of workers by adopting certain methods which have yielded very good results in other countries. For instance, in Yugoslavia the workers of public enterprises share in their profits. Workers' interest in the success of the enterprise is thus fully ensured. It has been possible

for the public enterprises in Yugoslavia to work out norms for various jobs on the basis of the duration of work and the productivity of labour. These norms serve as a basis for fixing the extent to which each employee participates in the distribution of the earnings of the enterprise. In the Soviet enterprises, employees are paid premiums over and above their wages depending on the degree of fulfilment or over-fulfilment of planned targets with reference to output as well as cost reduction. We are, therefore, of the view that suitable incentive schemes should be drawn up with a view to getting the best out of the employees of the public undertakings.

#### **Recommendation 60**

**We recommend that steps should be taken immediately to introduce effective incentive schemes for the employees of the public undertakings. The basic approach in working out such a scheme should be to link the earnings of workers to their productivity and performance subject to certain prescribed minima and maxima. The scheme should take into account the existing levels of productivity and prescribe realistic targets in terms of production as well as reductions in costs.**



## CHAPTER IX

### AUDIT AND APPRAISAL

With the vast growth in the volume and variety of public expenditure, there has taken place an enlargement in the scope and content of the audit thereof. Audit of public expenditure is no longer restricted to what is known as 'regularity audit' with its attention directed towards the detection of over-payments, payments made in excess of authority, failure to recover dues, infringement of rules, etc. These elements of regularity audit, important as they are, are taken for granted, and there is a demand for something more. The public is keenly interested in the results achieved from the expenditure of public funds—whether there has been extravagance and waste, and whether worthwhile results have been achieved and at what cost. This information can be given only by those who have access to the details of the expenditure and who are independent enough to make an objective appraisal of the results disclosed by a scrutiny of those details. The role of the independent auditor has, therefore, grown beyond that of mere regularity audit; it has extended to appraisal and to the forming of value judgments. In this new role, the independent auditor of public expenditure conducts what may be termed as "Efficiency-cum-Propriety" audit, or, more briefly, "Efficiency Audit".

2. We will now review the existing arrangements for the audit of Government companies and statutory corporations and make recommendations for changes therein, keeping in view the growing need for conducting efficiency audit.

3. Under Section 619(2) of the Companies Act, 1956, professional auditors are appointed by the Central Government on the advice of the Comptroller and Auditor-General (C&AG) for the purpose of auditing Government companies. In conducting the audit they are required to follow the directions issued by the C&AG. The C&AG has issued directions indicating certain aspects of the accounts which are to be scrutinised by them and they are required to submit a special report on these aspects in addition to the audit certificate required to be furnished under the Companies Act. The C&AG has also the right to comment upon or supplement their reports. Further, he has also the right to conduct at his discretion a test audit of the accounts of an undertaking either himself or by his nominee. The purpose of the audit conducted by the professional auditors is to enable them to certify under the Companies Act that the accounts represent a true and fair picture of the affairs of the company. Efficiency audit is not required to be done under the provisions of the Companies Act. Such audit is, however, the prime concern of the C&AG. He gets this audit made through the Director of Commercial Audit, an officer of his organisation.

4. The main objectives of the efficiency audit as at present conducted are to ascertain:

- (a) whether the various programmes taken up by the undertakings are being executed, and their operations conducted economically; and
- (b) whether the programmes are producing the results expected of them.

With regard to (a), examination is directed towards finding among other things:

- (i) whether technical estimates, detailed programmes, cost schedules, are being framed and the same are adhered to; if not, whether there are adequate reasons for excess, delays, etc.;
- (ii) whether there have been serious delays due to inefficient handling, planning and coordination, resulting in increases in total costs or loss of revenue due to the delayed execution or the holding up of other connected schemes;
- (iii) whether there has been any wasteful expenditure; and
- (iv) whether the performance/cost compares well with the results obtained in respect of similar schemes in other fields in the public sector.

As regards the objective (b), it is examined how far physical targets have been achieved within the estimated time and how far the returns anticipated have actually been realised. An attempt is also made at the end of each year to make an overall appraisal of the progress and efficiency of plan expenditure with reference to the total plan targets and anticipations.

5. The following are the main elements of the criticism made against the existing audit arrangements:

- (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 appears 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 advantages 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.

6. Some of the critics have gone to the extent of suggesting that audit by the C&AG may be discontinued. However, the assertion that

there is a lack of sufficient expertise or experience to undertake an appraisal of managerial efficiency is hardly a justification for not even attempting such an appraisal. The only way to build up such an expertise is to start with the available manpower and let it gain experience. Further, the position is not, in fact, as unsatisfactory as it is made out. The Study Team while reviewing the audit report on the Hindustan Steel Limited observed that the audit by the C&AG is fairly comprehensive and covers most of the important aspects of operations in each of the six units of the company and ended up with the statement 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". So the need is for strengthening the staff, in quality. Such audit, as described above, covers even now quite a wide area and with experience the audit techniques are also being refined. The difficulties alleged to have been created by the multiplicity of external audits appear to be exaggerated. The Director of Commercial Audit endeavours to avoid redoing the work done by professional auditors. In any case, the inconvenience alleged to be felt because of different auditors going through the same transactions can be minimised by evolving suitable procedures. It is neither necessary nor correct, on grounds of alleged inconvenience, that the C&AG's audit should be given up. Its objective is different from that of the audit conducted by professional auditors.

7. The other criticisms only indicate the need to take into consideration the special features relating to the decisions taken by the persons running industrial and commercial concerns. It should be appreciated that as on-the-spot decisions will have to be taken by them the possibility of some of them going wrong is unavoidable. Further, while a criticism of a decision if taken in a Government department would be justified it may not be so if taken by an industrial or commercial undertaking. All that is necessary for audit is to take these factors into consideration before commenting on the transactions of such undertakings. It would, however, not be in the public interest to confer on public undertakings complete immunity from enquiries for the purpose of an efficient audit. We would however like to emphasise that the audit should take an overall rather than a narrow detailed view of performance. It should not miss the wood for the trees. Its aim should not be to hunt out for faults for the sake of fault-finding, but look upon the undertaking's performance for the gear as an achievement to be reviewed. It could, of course, say, if the circumstances warrant it, that more could have been achieved at the same or less expense. We are convinced that audit by adopting this role can render valuable assistance to the management and come to be welcomed and respected instead of being feared and avoided.

8. The Study Team has examined the audit systems of other countries with a view to suggesting changes in the existing system of auditing public enterprises in India and the steps to be taken for bringing about a reorientation in the attitude of auditors necessary for undertaking efficiency audit. In particular, the Team has drawn attention to the system adopted in France where a separate commission, namely, *Commission de Verification des Comptes* (Commission of Verification of Accounts), has been set up under statute.



The Commission has a number of *sections* (boards) each of them doing not only regularity audit but also efficiency audit in respect of undertakings falling under specified areas of public enterprise. These boards include three magistrates of the *Cour des Comptes* (Audit Court) and two other members appointed by the Government. The Study Team is in favour of adopting this system. We have carefully considered the proposals of the Study Team and are in agreement with them. Four or five Audit Boards can be established and entrusted with the audit of specified groups of public undertakings in the corporate sector. Each of these Audit Boards will have five members; three of them, drawn from the organisation of the C&AG, will be common to all of them. Two of the common members can be of the rank of Accountant General; and one of the rank of Additional Deputy Comptroller and Auditor-General, who can also act as the chairman of all the Audit Boards. The other two members, who will be part-time, will be different for different Boards and they can be appointed by Government in consultation with the C&AG.

9. Another Study Team, namely, the Study Team on Reforms in Accounts and the Role of Audit has recommended that 'the C&AG may take all steps necessary to develop the requisite degree of competence and expertise within his organisation for the effective conduct of efficiency audit of public undertakings and devise, where necessary, suitable procedures to associate such technical experts, senior administrators and economic experts in this endeavour'. This other Study Team has, however, not suggested the adoption of a board modelled on the French pattern. We, however, feel that Audit Boards of the type referred to above will help create a proper climate in which a programme of more intensive efficiency audit which we visualise will receive ready acceptance by the authorities running the undertakings.

10. The type of audit which we envisage for the Audit Boards, based on the French pattern, will involve the use of skills with which the existing audit staff is not familiar. Training and orientation of staff will take considerable time. If we depend entirely on them, there will inevitably be a delay in the introduction of the new scheme. We, therefore, suggest that fresh recruitment should be made of persons who are familiar with the methods of efficiency audit. There are a number of persons who have received and are receiving training abroad in disciplines which are useful for conducting efficiency audit. The Union Public Service Commission may make recruitment from among such persons as well as those in the audit offices who have the requisite capacity for undertaking efficiency audit. Pending fresh recruitment, the Directorate of Commercial Audit may continue to do the audit of public undertakings. The staff of this Directorate as well as the freshly recruited staff will need an orientation course for which arrangements should be made.

### **Recommendation 61**

**We, therefore, recommend that :**

- (1) Four or five Audit Boards should be constituted, each Board dealing with specified sectors of public enterprise.**

**These Boards have to function under the general supervision of the C&AG.**

- (2) Each of these Boards should have five members; three should be permanent members common to all the Boards and should be senior officers belonging to the organisation of the C&AG. One of these members of the rank of an Additional Deputy Comptroller & Auditor-General should be the chairman of all the Boards. Each Board should have two part-time members to be appointed by the Government in consultation with the C&AG. These part-time members should be selected having in view the area of enterprise the Audit Board is required to deal with. Part-time memberships need not be restricted to serving officials. Selections may be made from the ranks of senior experienced persons working in public enterprises or from among experts in commercial or financial matters.**
- (3) The staff required for the Audit Boards should be recruited through the Union Public Service Commission. Those who are already working in the audit offices may also apply for posts in the Audit Boards. The selected staff should undergo a course in orientation for which arrangements should be made. The existing departmental set-up of the Directorate of Commercial Audit should be utilised until the new recruits take over the work.**

11. For taking care of the regularity audit, the Audit Board may also utilise the agency of professional auditors who are trained for this work and who have also gained experience of doing this work with regard to the Government companies. For conducting efficiency audit, the Audit Board will, of course, utilise its own staff. Multiplicity of audits will be avoided by clearly defining the area of work to be carried out by professional auditors, the Audit Board concentrating on the rest of the work including efficiency audit. For each undertaking or class of undertakings combined audit parties comprising the staff of Audit Boards as well as of professional auditors should be formed so that their task may be carried on concurrently and collectively. Thus, the chances of duplication will be effectively reduced. Reports relating to individual undertakings should be discussed in the Audit Boards in the presence of the representatives of the Ministry concerned and the public enterprise under examination and this report should be placed before Parliament with such comments as the C&AG may wish to make.

12. It should not be necessary for the Board to undertake a comprehensive review of the work of each undertaking every year. Its programme can be so phased that the comprehensive review in respect of each undertaking is completed once in every five year. Regularity audit involving annual verification of accounts and the preparation of balance sheets and profit and loss accounts should, however, continue to be done annually, professional auditors also being used by the Audit Boards for the purpose.

## Recommendation 62

**We recommend that:**

- (1) Combined audit parties comprising the staff of the Audit Boards and the professional auditors should be formed for carrying out their work in an undertaking concurrently and collectively.**
- (2) An Audit Board should finalise its report on an individual undertaking after a discussion in the presence of the representatives of the public undertaking and the Ministry concerned.**
- (3) The report of the Audit Boards, with such comments as the C&AG may wish to make, should be placed before Parliament.**

13. We believe that it would be desirable to constitute these Audit Boards through an Act of Parliament. The enactment may define the role, functions and powers of these Boards as well as their relationship with the C&AG.

14. Closely connected with the question of audit is the important question of a systematic appraisal of the performance of public undertakings by an external agency. We agree with the Study Team that "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". We also support their recommendation that "the task of undertaking periodic and systematic appraisal of managerial performance should be entrusted to the proposed Audit Boards". Here, we would like to make a few observations on some points which require special consideration when an appraisal is sought to be made of the performance of the public undertakings.

15. A simple criterion applied in testing the efficiency of private enterprise is whether it is making adequate profits. This criterion has its limitations when there is a sellers' market in which an inefficient producer would be able to make substantial profits. Be that as it may, this simple criterion will not be valid when applied to public undertakings which have to work under several constraints which affect the accrual of commercial profits and the commercial work of which is sometimes, if not often, subordinate to overriding considerations of public interest or subject to Governmental and Parliamentary control. These constraints operate not only after the saleable product emerges when its sale price is, in the public interest, subjected to control, but also during the intervening processes, when outlays on personnel and on non-economic activities may be forced on the concerns on socio-political considerations. Any appraisal of the performance of the undertakings will, therefore, have to take into account the avoidable outlay incurred on extra-commercial considerations. A proper criterion of efficiency would, therefore, be not the profitability of the concern, but the extent of success achieved in lowering the cost of production, after due provision has been made for the non-commercial

expenditure mentioned above, and the efficiency of the services provided or the quality of goods produced. The reduction in cost will have to be achieved through (a) economic and scientific use of resources—men, money and materials—during production; (b) economy in the outlay on items of expenditure not immediately connected with production, e.g., township facilities; and (c) improvements in organisational, transport and other systems calculated to secure optimum results. Such results can be achieved only through competent management, constantly planning for the best possible use of the available means of production.

16. Whether the concern is moving efficiently forward or is stagnant or sliding back into inefficiency will have to be tested, through valid comparisons made with the aid of suitable performance indicators. The comparison should be with the past performance of the same undertaking, with the present performance of similar undertakings in India and abroad and the standards set up by the undertaking for itself. A study based on these comparisons will bring to light the good as well as the unsatisfactory features of the working of the undertaking. The unsatisfactory feature may be of several kinds and some of them may not be remediable. Thus, the uneconomic results of the undertaking may be due to the incompetence or negligence of the management; faults in the organisational structure; defects in the equipment; the size of the undertaking being too large or too small; or the unsuitable location of the undertaking, etc. Remediable defects would be taken care of, and with regard to those which are irremediable, the extent to which cost increases are inevitable will be known for certain.

### **Recommendation 63**

**We recommend that:**

- (1) **A systematic appraisal of the performance of public undertakings should be undertaken and that this task should be entrusted to the Audit Boards.**
- (2) **For this work the expertise of the auditors under the Audit Boards should be augmented by employing economists, management engineers, statisticians, etc., and also those who have had the experience of working in public undertakings.**
- (3) **In evaluating the performance of a public enterprise, account should be taken of the constraints under which it functions.**

## CHAPTER X

### SUMMARY OF RECOMMENDATIONS

#### CHAPTER III—ORGANISATIONAL STRUCTURE

- 1 (1) The form of a statutory corporation should in general be adopted for public sector projects in the industrial and manufacturing field.
- (2) For projects in which there is an element of private participation, the Government company form may be adopted.
- (3) Promotional and developmental agencies should, as far as possible, be run as statutory corporations or departmental concerns.
- (4) Undertakings which are predominantly trading concerns or which are set up to improve and stabilise particular areas of business may have the company form.
- 2 (1) All the industrial and manufacturing concerns in the areas mentioned in paragraph 12 and the concerns in the fields of air transport, shipping and hotels and tourism should be grouped into sector corporations as indicated in Annexure. The State-owned shares in an undertaking in which there is private participation should be transferred to the sector corporation.
- (2) A sector corporation should also be set up in the field of Electronics when a programme for a large-scale expansion in this field is decided upon.
- 3 (1) The powers of the Government *vis-a-vis* the sector corporations and the functions of the corporations should in general be as follows:  
Powers reserved to the Government:
  - (i) to appoint the Chairman of the Corporation and the Government representatives on the board of the corporation;
  - (ii) to appoint in consultation with the Chairman, other members of the board of the corporation;
  - (iii) to give directions to the corporation as to the exercise and performance of its functions in matters involving national security or substantial public interest and to ensure that the corporation gives effect to such directions;
  - (iv) to call for such returns, accounts and other information with respect to the property and activities of the corporation as may be required from time to time;

- (v) to authorise the amount of capital to be raised and the terms and conditions on which it may be raised;
- (vi) to approve the corporation's five-year and annual plans of development and the corporation's capital budget;
- (vii) to approve the corporation's revenue budget in case there is an element of deficit which is proposed to be met by obtaining funds from the Government; and
- (viii) to approve agreements involving foreign collaboration proposed to be entered into by the corporation and to approve purchases and contracts of a major nature involving substantial capital outlay which are in excess of the powers vested in the corporation.

**Functions of the Sector Corporations :**

- (i) to advise the Government on general matters affecting industry in the public sector;
- (ii) to promote and develop industry in the public sector including the setting up of new projects in accordance with the Plan;
- (iii) to promote, provide or coordinate activities relating to—
  - (a) training of personnel;
  - (b) research and consultancy;
  - (c) sales promotion; and
  - (d) such other common services as the constituent units may agree to be provided by the corporation;
- (iv) to evolve a common policy for the wages and salaries and other terms and conditions of service of the employees of the corporation;
- (v) to approve the revenue budgets of the constituent units;
- (vi) to scrutinise the capital budgets of the constituent units and submit a consolidated budget to the Government;
- (vii) to make appointments to posts below the board level in the sector corporation;
- (viii) to appoint the chief executive of the constituent units in consultation with the Government;
- (ix) to appoint heads of departments in the constituent units in consultation with the chief executive of the unit concerned;

- (x) to call for such returns, accounts and other information with respect to properties and activities of each of the constituent units as the corporation may require from time to time;
  - (xi) to secure the largest degree of decentralisation consistent with the proper discharge by the corporation of their duties and functions; and
  - (xii) to set up an effective machinery for the speedy disposal of grievances and complaints pertaining to maladministration and abuse of authority by officers subordinate to the corporation.
- (2) Subject to the above, all the necessary powers required by the constituent units to discharge their duties and functions should be conferred on the managements at the unit level.
- 4 (1) The boards of management of sector corporations should be of a mixed type. The board should consist of—
- (a) a full-time Chairman-cum-Managing Director;
  - (b) full-time functional directors, their number depending on the needs of the case;
  - (c) not more than two part-time Government representatives; and
  - (d) two or three part-time members from outside the Government.
- (2) The Government representatives should be selected on the basis of their qualifications and experience and not by virtue of the office which they hold in a particular Ministry.
- (3) Part-time members from outside the Government should be persons with proven ability in the fields of industrial, commercial or financial enterprise or in administration or in trade union organisation. These qualifications should be laid down in the Act, or, in the case of Government companies in the Articles of Association. These members should have faith in public enterprise and should not have such business or other interests as may affect their objectivity in the discharge of their duties on the board.
- 5 (1) The constituent unit of a sector corporation which has an element of private participation and, therefore, the form of Government company should have a board of directors as envisaged at present under the Companies Act. No Government representative need be appointed on these boards and the sector corporation which holds the State-owned shares should nominate its representatives from among its directors and the executive heads

of departments to serve as part-time members on the boards of such companies. The composition of these boards will depend upon the extent of shares held by the sector corporation and the private parties and the agreement between them.

- (2) For a constituent unit which is wholly owned by the Government, there should be a committee of management if the size and nature of the operations of that unit so require. This committee should be functional and have the chief executive of the unit as the Chairman and the heads of key departments as members. For the smaller wholly-owned units there need only be a single executive, who may function directly under the board of the sector corporation.
- (3) The organisational structure of the constituent units of a sector corporation should also be defined in the Act setting up the corporation, but only in broad terms so as to enable the corporation to devise specific structures in individual cases in consultation with the Government and within the framework laid down in the Act. Provision should also be made in the Act to enable the corporation to devise the organisational structure for a new unit in the same way.
- (1) Until such time as the necessary legislation is enacted for giving effect to proposals relating to sector corporations, Government may, under the provisions of the Companies Act, bring about the amalgamation of the existing Government companies which are functioning in the same major area of enterprise and which are wholly owned by the Government and transfer the State-owned shares held in public undertakings not wholly-owned by Government to the appropriate multi-unit undertaking. In the amalgamated company, powers and functions will be distributed between the top management and the operating units in a manner similar to that contemplated for the distribution of powers between the sector corporation and the operating units. Subsequently, the multi-unit companies can be transformed into statutory corporations under Acts of Parliament.
- (2) The Indian Oil Corporation and the Oil and Natural Gas Commission should be grouped together to form one sector corporation by an Act of Parliament.
- (1) Full and effective use should be made of Section 620 of the Companies Act for exempting a Government company from such provisions of that Act which are not meaningful in their application to it.
- (2) The definition of a "Government company" should be enlarged so as to include a company not less than 51 per cent of whose shares are held by a sector corporation.



## CHAPTER IV—PUBLIC ENTERPRISES, PARLIAMENT AND GOVERNMENT

- 8 Parliament may be approached to agree to earmark a number of days for discussion of the working of public sector undertakings.
- 9 The Committee on Public Undertakings may consider taking up for examination a group of undertakings falling within one major area of enterprise and bringing out a consolidated report thereon.
- 10 (1) The Bureau of Public Enterprises, in consultation with the Ministries and public undertakings, should work out a model form for the Annual Reports of public undertakings. Standard operational indices should also be prepared for use by the public undertakings in order that essential information relating to their working is brought out in the Annual Reports in a readily intelligible form.
- (2) Each Annual Report should cover *inter alia* the following points:
- (a) information about the adequacy of the quantity and quality of output and reduction in cost;
  - (b) information relating to the utilisation of the principal ingredients of production, viz., labour, materials and installed capacity; in the case of undertakings not concerned with manufacture like transport and trading concerns the corresponding information should relate to factors relevant to such concerns;
  - (c) comparative performance between different parts of the undertaking, between one undertaking and another, and in relation to similar undertakings abroad;
  - (d) a brief report of the 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 costs; and
  - (e) a brief summary of the past operational results with comparisons of the results achieved during a specified period in order to bring out long-term trends.
- 11 The Ministries should not fail to bring to the notice of the Speaker questions which under the rules in force are not admissible.
- 12 (1) No officer of a Ministry should be made Chairman of a public undertaking, nor should the Secretary of a Ministry be included in its board of management.

- (2) The top management posts, like those of the Chairman or full-time members of the board, should be filled by officers on deputation only when there is no suitable alternative available. As a general rule, Government servants selected for appointment to these posts should, on appointment thereto, opt out permanently for service in the public sector.
  - (3) The Government officers appointed as part-time members of the board should be fairly senior and not below the rank of a Joint Secretary. These officers should not be taken as representing any particular Ministry so that even when they are transferred, they continue on the boards, the Ministry concerned making the necessary arrangements to keep the officer informed of its views.
  - (4) The chairman of the sector corporations should be accorded a status consistent with the requirements and importance of their functions without the limitations as to emoluments as exist at present.
  - (5) All appointments below the board level should be made by the board itself. However, in the case of the chief executive of a constituent unit and its Financial Adviser, the appointment should be made by the board in consultation with the Government.
  - (6) The power vested in the managements for sanctioning capital expenditure should be reviewed with a view to making upward revisions in the case of the larger undertakings.
  - (7) The board should have full freedom in delegating its powers to its executive officers whenever necessary.
  - (8) Any suggestion from Government to a public undertaking asking it to act in a manner different from that dictated by economic considerations should invariably be in the shape of a formal directive and it should be duly brought out in the Annual Report of the undertaking.
- 13
- (1) The Bureau of Public Enterprises should be invested with authority appropriate to its responsibilities. It should be headed by a person of the status of a Secretary who should hold a full-time charge of it.
  - (2) The person heading the Bureau should be acquainted with the working of public undertakings and should be competent to deal with problems of economic and statistical nature.
  - (3) The work at present being looked after by the Project Coordination Division of the Ministry of Industrial

Development and Company Affairs and the Management Division (COPP) of the Planning Commission and the work of the Home Ministry relating to the Industrial Management Pool should be transferred to the Bureau of Public Enterprises.

(4) The functions of the Bureau, in broad terms, should be—

- (a) to maintain panels of suitable persons with a view to assisting the administrative Ministries in making appointments to the boards of public undertakings and providing consultation for such senior posts under the corporations as may be prescribed;
- (b) to furnish periodical reports to Parliament and Government on the working of public undertakings;
- (c) to act as a data bank and as a clearing house of information in respect of important matters of common interest including information about organisational structure and pricing policies in public sector undertakings in other countries of the world;
- (d) to coordinate the work relating to the examination of public undertakings by Parliamentary Committees;
- (e) to compile information on the terms and conditions of service of employees and to advise public undertakings with a view to ensuring desirable uniformities in these matters;
- (f) to maintain liaison with the Department of Administrative Reforms in respect of matters like work-study, operations research and improved reporting systems;
- (g) to assist the concerned Ministries and Finance Ministry in making a more expert scrutiny and evaluation of feasibility studies/DPRs;
- (h) to assist the Ministries in controlling expenditure on residential and administrative buildings, residences of senior executives, townships and ancillary facilities; and
- (i) to advise public undertakings on matters on which advice is sought.

14 The Bureau of Public Enterprises should continue to be located in the Ministry of Finance.

15 A small technical cell should be set up in each Ministry concerned with public undertakings to assist in the scrutiny and evaluation of feasibility studies and detailed project reports and for the analysis and utilisation of progress reports and returns received from public undertakings. These cells need not be on an elaborate scale in view of the proposed strengthening

of the Bureau of Public Enterprises and the building up of the technical organisations in the sector corporations.

16. The location of public undertakings under the different Ministries should be as indicated in Annexure.
17. (1) An expert Study Group, under the Bureau of Public Enterprises should be set up to make a detailed examination of reporting by the public undertakings to the Government. This group can enlist the help of officers concerned in the Ministries and public undertakings as well as of the external consultants in the field. The information requirements of the controlling Ministries and other Government agencies should be reviewed to avoid overlapping and to enable standardised returns to be developed.
- (2) The forms devised for the submission of information by the public undertakings to the Government should, as far as possible, be identical with the forms adopted for submitting similar information to the management board.
- (3) The administrative Ministry should periodically review the extent of utilisation of the reports and returns obtained from public undertakings in order to cut out non-essential items of information and to strengthen their own organisation, if necessary, for carrying out the processing and analysis of information received through the reports, and for taking follow-up action on them.

## CHAPTER V—PLANNING AND CONSTRUCTION OF PROJECTS

18. (1) Planning Commission's Memorandum on 'Feasibility Studies for Public Sector Projects' should be adopted as a guide for the steps to be taken including the preparation of documents, before sanctioning a project.
- (2) For every project involving investment above, say, Rs. 5 crores, a feasibility study should be made along the lines set out in the Memorandum.
- (3) Before going in for additional capacity in the public sector, the agency concerned should assess the demand for the product after taking all relevant factors into consideration.
- (4) A project should not be included in the Plan unless the feasibility study has been completed and it has been found to be satisfactory on scrutiny. However, when such a study is not complete the project may be mentioned only as a notional target without mentioning locations.

- 19 (1) For projects not requiring foreign collaboration, Government approval to go ahead with the initial work on the project may be given on the basis of the feasibility report and final sanction for the release of funds should be given after supplementary project estimates taking the necessary changes into account have been prepared.
- (2) For projects that require the detailed project report to be prepared by a foreign technical collaborator, the Government or the public undertaking should prepare a feasibility study from the standpoint of national economic benefit and the approval of the project should be based on this report.
- 20 (1) Government and the Planning Commission should evolve and lay down standard guide-lines clearly for ascertaining the national economic profitability.
- (2) Immediately on receipt of the feasibility study/DPR, a piloting committee should be set up consisting of the representatives of all the Ministries and agencies concerned and this committee should undertake a concurrent and collective examination of the feasibility study/DPR so that delays due to successive examination by different agencies may be avoided.
- 21 (1) Public undertakings should be encouraged and assisted to set up adequate designing and consultancy organisations.
- (2) The work of project planning and formulation should be handed over to the sector corporations.
- (3) Turnkey contracts with foreign collaborators should ordinarily be avoided. In the special case when it is decided to award such a contract, care should be taken to see that complete drawings and designs are supplied by the foreign contractors, and that Indian engineers and technicians are given full and adequate training and associated with the construction work.
- 22 (1) Once a project has been approved, systematic and thorough planning of the construction programme should be undertaken before starting actual construction.
- (2) For all projects involving sizeable investment, say, of Rs. 5 crores and above, a complete master plan of construction should be drawn up with the help of network techniques like the PERT and CPM (Programme Evaluation and Review Technique and Critical Path Method).
- 23 (1) The construction effort under each contract should be scheduled and coordinated within the framework of a master plan.

- (2) For various types of 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.

- (3) Contracts should provide for incentives as well as penalties. 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 to enable management to ensure adherence to the time schedule. Incentive payments for the completion of a project on a date earlier than that specified in the agreement should be provided for whenever such earlier completion of the contract would facilitate the earlier completion of project as a whole.

- (4) Performance data should be collected about contractors doing work on public sector projects so that sufficient documentation may be available to the management for supporting their decision to reject the lowest tender in case the contractor making it is adjudged unsuitable.

24      The net-work techniques should be adopted for monitoring the progress of construction.

25      Till such time as the corporations are set up, the Bureau should compile information about the surpluses, or likely surpluses, of construction personnel and equipment and disseminate this information among the public undertakings with a view to securing their more efficient utilisation.

26      (1) Detailed information should be compiled about deviations from earlier estimates and this information should be communicated to the agencies connected with the technical scrutiny of feasibility studies of similar projects.

- (2) A project completion report should be drawn up for each project containing such information as may be found useful during the construction of similar projects in the future.

- (3) Work on the project completion report should preferably be undertaken from the start so that all useful data at every stage of construction is sifted, analysed and recorded while events are still fresh in memory.

- (4) Case histories based on the project completion report, bringing out the problems encountered and measures adopted to overcome them, should be prepared and circulated to all the agencies who are likely to find them useful.

## CHAPTER VI—RESOURCES—EXTERNAL AND INTERNAL

- 27 (1) A uniform loan-equity ratio need not be adopted for all public enterprises irrespective of their size, productive function and borrowing capacity.
- (2) The administrative 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 proposals asking for the release of already budgeted amounts. It should be possible for the Government to exercise post-withdrawal scrutiny of the manner in which the funds have been released to and utilised by the public undertakings.
- 28 (1) Government should be willing to provide the necessary guarantee if a public enterprise is unable to secure funds otherwise.
- (2) Public enterprises should be free to have cash credit arrangements with any scheduled bank that has deposits above a certain limit. Government should be kept informed of such arrangements.
- 29 A public undertaking, whether a Government company or a statutory corporation, should not be required to submit its revenue budget to Government or Parliament for prior approval except in cases where the Government is expected to make up the deficit, if any, in the budget.
- 30 Government should make a comprehensive and clear statement on the objectives and obligations of public undertakings. This statement should lay down the broad principles for determining the precise financial and economic obligations of the enterprises in matters such as 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. These governing principles should be formulated in consultation with the public enterprises. There should also be regular consultation between the Government and public enterprises to review the extent to which they can expect additional finance from Government for their capital requirements and the amount of surpluses that are expected from the undertakings.
- 31 The Bureau of Public Enterprises should be asked to work out standard scales in such matters as housing accommodation, hospitals and education facilities and other amenities provided to the employees. These standards should be worked out in consultation with the public undertakings and the Ministries concerned, note being taken of the varying conditions in different projects. The Ministry of Finance should ensure that scales prescribed are actually complied with.

- 32** In view of the fact that capital for construction of township is, in any case, provided by the Central Government, the provisions of the subsidy, as may be admissible under the Subsidised Housing Scheme, should be made at the very start.
- 33** In formulating the pricing policies of public enterprises the following principles should be kept in view :
- (1) Public enterprises in the industrial and manufacturing field should aim at earning surpluses to make a substantial contribution to capital development out of their earnings besides making a contribution to the Exchequer.
  - (2) Public enterprises should in any event pay their way and should not run into losses except in pursuance of express directives issued by Government in public interest.
  - (3) 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.
  - (4) 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.
- 34** (1) If in the public interest, Government require an undertaking to keep prices at an artificially low level, the financial obligations of that undertaking should be revised.
- (2) Wherever public undertakings are operating under non-competitive conditions or where the number of buyers of the product 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. In cases where the imported goods have the benefit of export subsidies in the countries of origin, the c.i.f. prices should be proportionately weighted.
- (3) As the ability to produce goods at costs matching the c.i.f. price of similar goods will differ from undertaking to undertaking, a detailed examination of the cost structure of the products of such undertakings, should be made to determine the levels of permissible deviations. For this purpose, Government can utilise the machinery of Tariff Commission or the Cost Accounts Organisation of the Ministry of Finance.
- 35** (1) Consumers' Consultative Councils should be set up in each sector of public enterprise. These Councils should consist of the representatives of organised bodies of consumers concerned with the products of the undertaking, the controlling Ministry, the sector corporation concerned, and other interested Government departments and public undertakings.



- (2) Parliament may elect two members to serve on each of these Councils.
  - (3) The Councils should deal with matters involving the interest of the consumers and further advise Government or Sector Corporation on such matters as may be referred to them by the latter.
- 36 (1) High-powered standing committees consisting of the representatives of the public undertakings and the Ministries concerned should be constituted for deciding matters under dispute between Central public undertakings. The Chief Economic Adviser or his nominee should be included in these committees so that he might be able to provide expert advice to them.
- (2) In case the dispute over prices is between undertakings under the control of different Governments, the decision will have to come from a statutory body. In such cases, the agency and expertise of the Tariff Commission can be utilised or a special tribunal set up, with the statutory authority necessary to ensure that its decisions are binding on the disputants.

## CHAPTER VII—FINANCIAL AND MATERIALS MANAGEMENT

- 37 (1) Budget should be viewed as embodying a programme of action which enables those who are responsible for the use of resources to project their ideas into the future, and concurrently to look back and review actual performance and progress as compared with promise and intentions. It should not be looked upon merely as a device for obtaining funds and as an instrument of control over those who are authorised to spend.
- (2) Public undertakings should prepare comprehensive budgets to embrace the entire organisation and to cover *inter-alia* the following range of budgeting activities:
- (a) Production Estimates;
  - (b) Sales Estimates;
  - (c) Cost of Production Budget with its necessary subdivisions, e.g.,
    - . Materials Purchase Estimates,
    - . Labour and Personnel Estimates,
    - . Overheads Estimates,
    - . Plant Maintenance Estimates, etc.
  - (d) Manpower Budget;
  - (e) Township and Welfare Estimates;
  - (f) Research and Development Estimates;
  - (g) Capital Expenditure Budget;
  - (h) Profit and Loss Estimates;
  - (i) Cash Flow Estimates;
  - (j) "Capital Employed" Budget—Fixed and Working Capital.

- 38 (1) The preparation of the revenue budget should be taken as an opportunity to make a comprehensive and forward-looking review of plans and standards. 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.
- (2) The comparison of performance data with budget estimates should be undertaken periodically during the currency of the budget itself. Expenditure budgets in general may be reviewed at least twice a year to enable the management to obtain some mid-year knowledge of how expenditure is faring so that they may take corrective steps, where necessary, before the year has ended.
- (3) Monthly reviews should be undertaken of sales, production, consumption and yield figures at each plant and unit. Profit and loss accounts and balance sheets as well as cost statements should also be prepared every month.
- (4) 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 organisation of the undertaking can provide.
- 39 (1) Every public undertaking 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.
- (2) To enable public enterprises to undertake long-term capital planning on a realistic basis, Government should each year discuss with the enterprises and approve its plans for development and capital expenditure for the next five years, agreeing to appropriate long-term commitments as well.
- (3) Proper controls may be prescribed to keep public sector investment generally within the Government's resources. For instance, Government may each year fix an upper limit on the expenditure to be incurred on capital account by the enterprises during a shorter period ahead, say, 2 years.
- 40 The cash budget and the periodical budget-performance comparison statements and cash flow statements should be treated as an integral part of the budgetary process.
- 41 (1) Improvement in budgetary and financial control should be accompanied by a greater delegation of authority as well as reduction in the number of cases requiring prior financial concurrence. The need for prior financial concurrence can be further reduced or eliminated by increasing the financial powers of managers, purchase officers, etc. and providing for inter-branch standing committees for such purposes as review of tenders, purchase of equipment and stores.

- (2) Each public enterprise should be asked to compile a comprehensive budget manual to cover the various forms for compiling information for the budget, the time schedule for its preparation, the responsibility/cost centres and the financial powers related to budgetary levels at each responsibility centre, budget committees and the procedures for carrying out periodical budgetary reviews.
- 42 (1) Internal audit should be effectively organised in every public enterprise as a staff function.
- (2) The principal tasks of internal audit should be—
- (a) to review the soundness, adequacy and application of accounting, financial and operational controls;
  - (b) to ascertain the extent of compliance with prescribed plans and procedures and accuracy of accounts and other data developed within the organisation;
  - (c) to make constructive suggestions for improvement; and
  - (d) to review and report the action taken by line authorities on the points brought out in previous audit reports of internal as well as external auditors.
- (3) Other duties that may be assigned to the internal audit organisation are—
- (a) to verify that proper authorisations exist for the acquisition and disposal of assets of the enterprise; and
  - (b) to test-check a certain percentage of transactions and verify inventories with a view to helping in the prevention and detection of frauds, misappropriation and pilferage.
- 43 (1) It is of the utmost importance that the Financial Adviser of an enterprise should regard himself as an integral part of the management team and not look upon himself as an outsider representing the financial interests of the Government.
- (2) The Financial Advisers of undertakings, both at the sector level and at the unit level, should be encouraged to place greater emphasis on the management accounting aspect of their working.
- 44 (1) Materials management should be accorded due recognition at the top management level where a Central Control Section should be set up for materials planning and for securing the introduction of modern techniques.
- (2) A Materials Management Manual should be drawn up to give concrete shape to the relevant scientific concepts in each public undertaking and to outline the prescribed procedures in order to facilitate the general adoption of improved techniques.

- (3) Training in materials management should be given greater importance. In addition to having fully trained staff in the materials management organisation, it will be advantageous to have short-term training imparted to the personnel of other departments as well.
- (4) The operating procedures in the public undertakings should be simplified by taking among others, the following measures—
  - (a) on the basis of the annual and longer term plans of the undertaking, the Central Control Section for materials management and planning should draw up its own plan and assess the volume of work to be done and the amount and type of materials to be procured;
  - (b) rules involving financial concurrence should be clearly laid down for open tenders as well as limited enquiry tenders and standing committees should be set up for scrutiny and sanction of tenders to avoid inter-branch references within the undertaking;
  - (c) purchase within predetermined financial limits laid down in the budget should not normally require prior financial concurrence except for the very costly items; and
  - (d) procedure for purchasing low cost items should be very much simplified, reducing or, if possible, even eliminating the need for enquiry and quotations.
- (1) Project authorities should be precise in estimating the requirements of items like earth-moving equipment, vehicles, common tools, etc. needed during the construction phase. In the larger projects a Central Planning Group for materials should be set up, under the engineer in charge of construction, for planning the total requirements and phasing their procurement.
- (2) The recommendations made by foreign collaborators on the provision of spares should be scrutinised in comparison with the position prevailing in similar plants abroad, including the foreign collaborators' own plants.
- (3) A small cell comprising technical experts and materials management experts should be formed in each large project, and especially in those with substantial dependence on imported items, to identify and catalogue the spares and to obtain their manufacturing drawings and specifications as a first step towards establishing their indigenous manufacture. Project authorities should take timely steps to create their own workshop facilities in respect of items required in small quantities and non-repetitively.
- (4) Government should evolve effective inspection arrangements to keep sufficient check on the quality of the products of indigenous manufacturers. They should not come to enjoy a monopolistic position *vis-a-vis* the purchasing

public enterprises under the shelter of Government's understandable desire to promote import substitution. Government should also formulate a uniform policy for the price preference that the public enterprises should extend to indigenous manufacturers to serve as guidelines for the public enterprises, the indigenous manufacturers and the Directorate General of Technical Development.

- (5) The recommendations made by the Mathur Committee for facilitating imports by public enterprises, and accepted by the Government, should be effectively implemented as soon as possible, particularly, the recommendations relating to the facilities of annual licensing and vesting of powers in project authorities to operate on foreign exchange within the sanctioned allocations.

#### CHAPTER VIII—PERSONNEL

- 46 (1) While making appointments to the board, preference should be given to the officers working within the undertaking. The system of appointments should be in accordance with the basic principle that a person from the lowest ranks of service can rise to the top if he has acquired the necessary qualifications, and if his performance has been outstanding.
- (2) The whole procedure for the appointment of members of the board should be systematised. Action to fill these posts should be taken well in advance to avoid vacancies remaining unfilled and making appointments in haste. The new appointee should be placed in position as an understudy for the brief period of a month or so to get acquainted with the job before taking over the post.
- (3) The Bureau should draw up panels of suitable persons for board appointments. Selections to these panels should be made by a committee consisting of the Director-General of the Bureau of Public Enterprises and two chairmen of sector corporations. This committee should be reconstituted periodically to enable the chairmen of different sector corporations to be associated with it.
- (4) If sufficiently experienced and senior men are not available within the public undertakings for holding board memberships, suitable persons may be selected from among Government officers, leading industrialists and businessmen, and professional managers and specialists in the private sector. In such cases, persons selected should sever their connections with their previous organisations. In particular, Government officers selected for these posts should be asked to resign their service with the Government.
- (5) Certain general qualifications should be prescribed for the members of the board, *e.g.*, experience of industrial, commercial or financial matters, applied sciences or administration or trade union organisation. The Chairman

of the public undertaking concerned should be consulted before Government makes appointments to the board except in the case of part-time official nominees of the Government.

- (6) While appointing the part-time official nominees to the board, Government should see that persons nominated do not have to serve on more than two or three boards and are not so burdened with their substantive work that they find it difficult to play a useful part in board meetings.
- (7) Frequent changes and long vacancies in top posts must be avoided. The Chairman and full-time functional members of the board should have a fairly long period of tenure to enable them 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 the full-time members of the board and a period of not less than two years for the part-time non-official members.
- (8) Salaries of persons occupying top posts in public undertakings should be fixed on the basis of the responsibility attaching to the posts and the needs of the situation, and need not necessarily be pegged to the scales obtaining in Government service.
- (1) Every sector corporation should evolve a common policy for laying down, on a uniform basis, the terms and conditions of service of employees of the corporation.
- (2) Except for the higher levels of managerial and technical personnel, such as posts with a minimum starting salary of Rs. 1,300 per month or so, full powers of recruitment, promotion and disciplinary and administrative control of staff employed in a constituent unit should be with the unit itself. The sector corporation should, however, have the authority of making inter-unit transfers within the corporation in consultation with the units concerned.
- (3) Authority for recruitment, promotion and transfer, etc. of persons occupying senior posts described at (2) above, should be vested in the sector corporation. However, all officers in the constituent unit should be under the administrative and disciplinary control of that unit, provided that powers of deciding appeals and of imposing a punishment involving termination of services of a person occupying a senior post should remain with the sector corporation. In respect of heads of departments, the power to impose punishment involving reduction in rank should also be reserved to the sector corporation. An appeal should lie to the Government against an original order passed by the sector corporation if it is one of dismissal, removal from service or reduction in rank. The appeal should be decided in consultation with the Union Public Service Commission.

- (4) The sector corporations and their constituent units should make their own administrative arrangements for carrying out the recruitment and training programmes.
  - (5) Arrangements should be made for providing from sector corporations suitable officers to the smaller public undertakings which do not belong to a sector corporation. The possible requirements of such smaller public undertakings for experienced personnel should be kept in view by the appropriate sector corporation. The Bureau should draw up panels under the direction of the committee, consisting of the Director-General of the Bureau and two chairmen of sector corporations, for facilitating such inter-undertaking transfers. The assistance of this committee can also be taken when inter-corporation transfers are found to be necessary.
- 48
- (1) All necessary steps should be taken to reduce and eliminate the dependence on deputationists in manning posts in the public sector.
  - (2) For manning senior posts, preference should be given to persons working in the undertaking. If no suitable person is available in the undertaking, the best available person may be selected by tapping all possible sources including other public undertakings, the Government and the private sector. The appointment should, as far as possible, be on a regular basis and not on terms of deputation.
  - (3) In the rare case when it becomes unavoidable to take an officer on deputation for want of a suitable alternative, the term of employment in the undertaking should, under a contract, normally be for a period of five years with a provision for review at the end of the first year to enable termination of cases of maladjustment.
  - (4) Service rules relating to Government officers should be liberalised for facilitating the permanent absorption of deputationists at any level in the service of the undertaking. Similarly, rules standing in the way of a sufficiently long term of deputation in the public undertakings should be modified to ensure a minimum five-year period.
- 49
- (1) Enforcement of a uniform pattern in the matter of pay and allowances of employees in the public sector will 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 as an advisory service instead of insisting on prior Government approval or conformity with rigid guide-lines.
  - (2) The Bureau should act as a clearing house of information relating to service conditions, pay scales and allowances in force in different public undertakings. This information should be made available to public undertakings and the controlling Ministries. In case, any undertaking goes

seriously out of line without due justification, Government will always be in a position to correct the situation by issuing a directive.

- 50 (1) The survey of additional requirements for managerial and technical manpower for the Fourth and Fifth Plan periods, made recently by the public undertakings, should be further 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 programme, particularly for the specialised branches.
- (2) Public enterprises need not assume responsibility for basic training in general management, and training in professions. The existing training institutes should be utilised for imparting this type of training.
- (3) The Bureau, in cooperation with the public undertakings and the Ministries concerned, should—
- (a) review the existing training facilities and programmes to avoid duplication of effort;
  - (b) identify areas where training facilities need to be extended or increased; and
  - (c) evaluate the suitability of training programmes to the requirements of the public sector.
- (4) Training of specialists and technicians required only by the public undertakings will have to be taken care of by the undertakings themselves. Undertakings operating in the same field of technology should do this in cooperation with each other. Where sector corporations are set up they should provide common training facilities.
- 51 (1) Proper work standards and other control techniques should be adopted from the very beginning to avoid over-staffing.
- (2) In the undertakings where over-staffing has become chronic, work studies should be undertaken by industrial engineers to find out the extent and area of over-staffing.
- (3) The normal vacancies occurring in the over-staffed departments may be left unfilled; employees who are found surplus may be allowed to freely apply for jobs outside. Skilled workmen should be persuaded with the help of incentives, if necessary, to do without the assistance of helpers. The practice of having helpers should not be allowed in the new projects.
- (4) Greater use should be made of the construction corporations in the public sector and non-departmental agencies wherever such a course is feasible.
- 52 (1) Any advanced training programme given during the course of a period of service should be linked to a definite ladder of promotion so that technical personnel after such training can look forward to comparatively early promotions to higher grades.



- (2) Persons selected for training should be required to execute a bond to render service for a minimum period of five years after the completion of training. The amount for which the bond should be executed should be a fair proportion of the total amount spent during the training course, and, in the event of infringement, the conditions of the bond should be rigidly enforced. Provision should be made, by a special enactment, if necessary, to enable the recovery of the amount of the forfeited bond in a manner similar to the recovery of arrears of land revenue.
  - (3) A person who resigns or deserts from the service of a public undertaking within the period for which he has bound himself to serve the undertaking should not be employed under the Government or in a public undertaking till the amount due from him has been fully paid to the undertaking concerned.
- 53
- (1) The special obligations of managements in the public sector with regard to labour matters should be spelt out more clearly by the Government.
  - (2) Managements of public undertakings should evince keen interest in the welfare of the workers. The personnel policies of public undertakings should be such as would develop the skills and capabilities of the workers and improve their prospects and standard of living.
  - (3) The model employer concept should not be construed to mean that supervising officers should condone or be lenient towards indifferent work or acts of indiscipline.
- 54
- (1) It should be ensured that every public undertaking effectively discharges all the statutory obligations imposed on the employers by the labour laws. The controlling Ministry and the Ministry of Labour, Employment and Rehabilitation should undertake periodic reviews for this purpose.
  - (2) Public undertakings should have their personnel managers trained in industrial relations and labour management and should adequately strengthen their personnel departments.
  - (3) A professionally qualified and experienced labour officer should be available at a sufficiently senior level in the personnel department. He should have the facility of direct approach to the chief executive in case he felt that his advice was being unjustifiably disregarded by any line authority.
  - (4) Officers entrusted with labour relations should not shoulder any direct responsibility in matters like recruitment, promotions and disciplinary action against workers.
  - (5) As a rule, a separate section should be established exclusively for labour relations within the personnel department; in the larger undertakings, a separate department should be organised solely for labour relations.

- (6) The labour officers of the Central Pool maintained by the Ministry of Labour, Employment and Rehabilitation may, in suitable cases, be got permanently absorbed in the service of the public undertakings. An outside pool need not be maintained for the purpose of deputing officers to the undertakings.
- (1) Township and connected facilities should form a separate unit of administration managed by a committee consisting of the officers concerned of the public undertaking and a few representatives elected by the staff and workers living in the township from among themselves.
- (2) The township administration, in discharging its responsibilities for maintaining sanitation and other municipal services should be required, as far as possible, to pay its way with the help of recoveries of rent and such taxes as may be imposed by the management committee of the township.
- (3) Variations in the amount of subsidy given by different public undertakings in respect of expenditure incurred on various items of workers' welfare should be examined by a committee comprising the representatives of selected public undertakings and the Ministries concerned with a view to laying down guide-lines and norms.
- (1) Labour laws applying to public undertakings need not be identical with those applicable to private concerns.
- (2) Cases of illegal strike in public undertakings should be dealt with firmly. The union responsible for launching such a strike should, if it is a recognised union, be immediately de-recognised. Provision should also be made to remove from service, after summary inquiry held in consonance with principles of natural justice, such workers as are proved to have taken part in an illegal strike.
- (3) Feasibility of adopting the 'check-off system' (under which union dues are collected by making deductions from wages) in the public sector should be examined.
- (4) Labour Councils with a prescribed number of members, should be formed for conducting negotiations with the management on labour matters. The members of the Council should be elected once in two years by all the workers, each of them having one vote.

For matters relating to settlement of disputes, the Central Government should be designated as the appropriate Government under the Industrial Disputes Act, 1947, for certain additional categories of heavy industries which would cover units like the steel plants, heavy electricals plants, fertilisers and chemicals plants, aircraft manufacturing units and shipyards.

Managements should regard 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 discussions.

59 In the Joint Management Councils the workers' representatives should be elected by all the workers and not nominated by the unions.

60 Steps should be taken immediately to introduce effective incentive schemes for the employees of the public undertakings. The basic approach in working out such a scheme should be to link the earnings of workers to their productivity and performance subject to certain prescribed minima and maxima. The scheme should take into account the existing levels of productivity and prescribe realistic targets in terms of production as well as reductions in costs.

## CHAPTER IX—AUDIT AND APPRAISAL

61 (1) Four or five Audit Boards should be constituted, each Board dealing with specified sectors of public enterprise. These Boards have to function under the general supervision of the C&AG.

(2) Each of these Boards should have five members; three should be permanent members common to all the Boards and should be senior officers belonging to the organisation of the C&AG. One of these members of the rank of an Additional Deputy Comptroller and Auditor-General should be the chairman of all the Boards. Each Board should have two part-time members to be appointed by the Government in consultation with the C&AG. These part-time members should be selected having in view the area of enterprise the Audit Board is required to deal with. Part-time memberships need not be restricted to serving officials. Selections may be made from the ranks of senior experienced persons working in public enterprises or from among experts in commercial or financial matters.

(3) The staff required for the Audit Boards should be recruited through the Union Public Service Commission. Those who are already working in the audit offices may also apply for posts in the Audit Boards. The selected staff should undergo a course in orientation for which arrangements should be made. The existing departmental set-up of the Directorate of Commercial Audit should be utilised until the new recruits take over the work.

62 (1) Combined audit parties comprising the staff of the Audit Boards and the professional auditors should be formed for carrying out their work in an undertaking concurrently and collectively.

(2) An Audit Board should finalise its report on an individual undertaking after a discussion in the presence of the

representatives of the public undertaking and the Ministry concerned.

- (3) The report of the Audit Boards, with such comments as the C&AG may wish to make, should be placed before Parliament.
- 63 (1) A systematic appraisal of the performance of public undertakings should be undertaken and this task should be entrusted to the Audit Boards.
- (2) For this work the expertise of the auditors under the Audit Boards should be augmented by employing economists, management engineers, statisticians, etc. and also those who have had the experience of working in public undertakings.
- (3) In evaluating the performance of a public enterprise, account should be taken of the constraints under which it functions.



K. Hanumanthaiya  
Chairman

H. C. Mathur  
Member

H. V. Kamath  
Member

Debabrata Mookerjee  
Member

V. Shankar  
Member

V. V. Chari  
Secretary

Dated the 16th October, 1967.

## ANNEXURE

### STATEMENT SHOWING THE PROPOSED GROUPING OF PUBLIC UNDERTAKINGS OF THE CENTRAL GOVERNMENT UNDER SECTOR CORPORATIONS (WHERE SUGGESTED) AND THE ADMINISTRATIVE MINISTRIES 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 sector corporations	The proposed administrative Ministry	Remarks
1	2	3
1. <i>Iron and Steel Corporation</i>	Steel, Mines and Metals	
(i) Hindustan Steel Ltd		
(ii) Bokaro Steel Ltd		
(iii) Hindustan Steel Works Construction Ltd		
2. <i>Coal and Lignite Corporation</i>	Steel, Mines and Metals	
(i) National Coal Development Corporation Ltd		
(ii) Neyveli Lignite Corporation Ltd		
3. <i>Mining Corporation</i>	Steel, Mines and Metals	Cement Corporation of India is at present under the Ministry of Industrial Development and Company Affairs
(i) National Mineral Development Corporation Ltd		
(ii) Bharat Aluminium Company Ltd		
(iii) Hindustan Zinc Ltd		
(iv) Cement Corporation of India Ltd		

## PART I—contd.

Existing undertakings grouped under the proposed sector corporations	The proposed administrative Ministry	Remarks
1	2	3
4. <i>Engineering Corporation</i>	Industrial Development and Company Affairs	
<i>A—Heavy Engineering Wing</i>		
(i) Heavy Engineering Corporation Ltd		
(ii) Mining and Allied Machinery Corporation Ltd		
(iii) Triveni Structural Ltd		
(iv) Hindustan Machine Tools Ltd		
(v) Bharat Heavy Plate and Vessels Ltd		
(vi) Machine Tools Corporation of India Ltd		
(vii) Tungabhadra Steel Products Ltd		
<i>B—Light Engineering Wing</i>		
(i) Hindustan Cables Ltd		
(ii) Instrumentation Ltd		
(iii) National Instruments Ltd		
5. <i>Electricals Corporation</i>	Industrial Development and Company Affairs	
(i) Heavy Electricals Ltd		
(ii) Bharat Heavy Electricals Ltd		
6. <i>Oil Corporation</i>	Petroleum & Chemicals	
(i) Indian Oil Corporation Ltd		
(ii) Oil and Natural Gas Commission		
(iii) Cochin Refineries Ltd*		
(iv) Madras Refineries Ltd*		
(v) Engineers India Ltd		
(vi) Lubrizol India Ltd*		

## PART I—concl'd.

Existing undertakings grouped under the proposed sector corporations	The proposed administrative Ministry	Remarks
1	2	3
7. <i>Fertilizer Corporation</i>	Petroleum and Chemicals	
(i) Fertilizer Corporation of India Ltd		
(ii) Fertilisers and Chemicals Travancore Ltd*		
(iii) Madras Fertilisers Ltd*		
8. <i>Chemicals and Drugs Corporation</i>	Petroleum and Chemicals	Hindustan Photo Films, Nepa Mills and Hindustan Salts are at present under the Ministry of Industrial Development & Company Affairs
(i) Hindustan Insecticides Ltd		
(ii) Pyrites and Chemicals Development Co Ltd		
(iii) Hindustan Organic Chemicals Ltd*		
(iv) Hindustan Photo Films Manufacturing Co. Ltd		
(v) Nepa Mills Ltd*		
(vi) Hindustan Salts Ltd (including Sambhar Salts)		
(vii) Indian Drugs and Pharmaceuticals Ltd		
9. <i>Shipping Corporation</i>	Transport and Shipping	
(i) Shipping Corporation of India Ltd		
(ii) Hindustan Shipyard Ltd		
(iii) Mogul Line Ltd*		
10. <i>Air Corporation</i>	Tourism and Civil Aviation	
(i) Air India		
(ii) Indian Airlines Corporation		
11. <i>Hotels &amp; Tourism Corporation</i>	Tourism and Civil Aviation	Ashoka Hotels and Janpath Hotels are at present under the Ministry of Works, Housing and Supply
(i) India Tourism Development Corporation Ltd		
(ii) Ashoka Hotels Ltd*		
(iii) Janpath Hotels		

\*Undertakings marked with an asterisk have an element of private participation in share capital and will continue to retain the company form.

## PART II

*Public Undertakings in respect of which grouping or change in the administrative Ministry is not being suggested*

Name of public undertaking	Administrative Ministry
1. State Trading Corporation of India Ltd	Commerce
2. Minerals and Metals Trading Corporation of India Ltd .. ..	Do.
3. Life Insurance Corporation of India ..	Finance
4. Food Corporation of India .. ..	Food, Agriculture, Community Development and Co-operation
5. Central Warehousing Corporation ..	Do.
6. Central Fisheries Corporation Ltd ..	Do.
7. National Seeds Corporation Ltd ..	Do.
8. Modern Bakeries Ltd .. ..	Do.
9. Central Road Transport Corporation Ltd	Transport and Shipping
10. Central Inland Water Transport Corporation Ltd .. ..	Do.
11. Hindustan Teleprinters Ltd .. ..	Department of Communications
12. Indian Telephone Industries Ltd ..	Do.
13. National Buildings Construction Corporation Ltd .. ..	Works, Housing & Supply
14. Hindustan Housing Factory Ltd ..	Do.
15. National Projects Construction Corporation Ltd .. ..	Irrigation and Power
16. National Research Development Corporation Ltd .. ..	Education
17. Rehabilitation Industries Corporation Ltd	Labour, Employment and Rehabilitation
18. Rehabilitation Housing Corporation Ltd	Do.
19. National Small Industries Corporation Ltd	Industrial Development and Company Affairs
20. National Industrial Development Corporation Ltd .. ..	Do.
21. Export Credit & Guarantee Corporation Ltd .. ..	Commerce
22. Film Finance Corporation Ltd ..	Information & Broadcasting
23. Indian Rare Earths Ltd .. ..	Department of Atomic Energy
24. Bharat Earth Movers Ltd .. ..	Defence
25. Bharat Electronics Ltd .. ..	Do.
26. Garden Reach Workshops Ltd ..	Do.
27. Hindustan Aeronautics Ltd .. ..	Do.
28. Mazagon Dock Ltd .. ..	Do.
29. Praga Tools Ltd .. ..	Do.
30. Hindustan Latex Ltd .. ..	Ministry of Health and Family Planning.





सत्यमेव जयते



सत्यमेव जयते



सत्यमेव जयते

